

CHEMONICS INTERNATIONAL INC.

IMPROVING THE BUSINESS AND INVESTMENT CLIMATE
AND IMPLEMENTING ECONOMIC REFORMS IN NICARAGUA
UNDER THE GENERAL BUSINESS TRADE AND INVESTMENT
INDEFINITE QUANTITY CONTRACT (GBTI IQC)

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ACRONYMS

AMCHAM	American Chamber of Commerce
BR	Business Roundtable
CA	Central America
CAFTA	Central American Free Trade Agreements
CBI	Caribbean Basin Initiative
COP	Chief of Party
CONPES	National Council for Economic and Social Policies
COSEP	Superior Council for Private Enterprise
CPC	Competitiveness Presidential Commission
US-DR/CAFTA	United States-Dominican Republic/Central America Free Trade Agreement
ENTRESA	Nicaraguan Enterprise for Electric Transmission
EU	European Union
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GBTI	General Business Development and Trade Investment IQC
GON	Government of Nicaragua
IICA	Inter-American Institute for Cooperation in Agriculture
IMF	International Monetary Fund
INATEC	National Technical and Training Institute
INTUR	National Institute for Tourism
MAGFOR	Ministry of Agriculture and Forestry
MARENA	Ministry of Environment and Natural Resources
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MIFIC	Ministry of Development, Industry and Trade
NAFTA	North American Free Trade Agreement
NDP	National Development Plan
NDP-O	National Development Plan-Operative Version
PROVIA	Private Foundation for Agricultural Policy
PRSP	Poverty Reduction Strategy Paper
SECEP	Nicaragua's Presidential Secretariat for Strategy and Coordination
SIB	Superintendence of Banks
SME	Small and Medium Enterprises
TELCOR	Telecommunication Regulatory Authority
TPL	Trade Preferential Level
USAID	United States Agency for International Development
USITC	U.S. International Trade Commission

IMPROVING THE BUSINESS AND INVESTMENT CLIMATE AND IMPLEMENTING ECONOMIC REFORMS IN NICARAGUA

The Chemonics Nicaragua GBTI Task Order team presents this final report on USAID Task Order, Improving the Business and Investment Climate and Implementing Economic Reforms in Nicaragua (Nicaragua GBTI). The contract's objective is to provide policy advice to the President's Chief of Staff in the Presidential Secretariat for Strategy and Coordination to help the Government of Nicaragua (GON) formulate and implement critical economic reforms to stimulate the economy and to increase trade and investment. This report summarizes how technical assistance and initiatives have boosted momentum for proactive-minded players to improve Nicaragua's competitive stance.

Section A provides a brief introduction and an overview of the project. Section B describes key recommendations proposed and adopted by the GON with respect to the first required result mentioned in the task order, namely *Enabling Environment for Increased Trade and Investment Enhanced*. Section C provides background information associated with the second result, that is, *Key Economic Policies Reformed and Economic Incentives and Business Environment for Trade and Investment Improved*, mentioned in the task order. Similarly, Section D summarizes the recommendations and achievements linked to result three: *Improve Nicaragua's Economic Competitiveness by Increasing the Participation of Private Sector Groups and other Relevant Stakeholders*. As follows, the same applies to Section E, which, in this case responds to the fourth result, *GON Ministries and Donor Programs Coordinated*. Finally, Section F concludes with remarks on activities over the year of implementing this challenging policy project and proposes next step required for ensuring continued progress.

A. Introduction and Project Overview

Throughout the implementation of Nicaragua GBTI, Chemonics International and USAID/Nicaragua worked together to support activities to further macro and microeconomic reforms, to improve the business and investment climate, to enhance the country's overall competitive position in regional and global markets, and to promote economic diversification. The final report highlights accomplishments and summarizes recommendations made over the life of the project. The report draws attention to how these recommendations were useful to the GON, and synthesizes impact and results stemming from a year's work on macroeconomic policy intervention.

The Nicaragua GBTI team included two Managua based long-term employees. The team composed of senior economic advisor Dr. Efrain Laureano and research assistant Amanda Fonseca, both of whom worked with local counterparts in coordination with the Chemonics home-office Project Management Unit (PMU). The home-office PMU —Cristina Alvarez, the project manager, Joel Weber, project administrator; and Marina Paz, assistant project administrator — provided ongoing backstop support for the life of the contract. In addition, Nicaragua GBTI contracted three short-term consultants: Felipe Manteiga, Eddy Martinez, and Rene Benavente.

A1. Key Objectives

Work under this task order focuses on achieving four primary results:

- **Result 1:** Enabling Environment for Increased Trade and Investment Enhanced
- **Result 2:** Key Economic Policies Reformed and Economic Incentives and Business Environment for Trade and Investment Improved
- **Result 3:** Improve Nicaragua's Economic Competitiveness by Increasing the Participation of Private Sector Groups and other Relevant Stakeholders
- **Result 4:** GON Ministries and Donor Programs Coordinated

The following sections outline the main results and activities carried out during the life of project from October 31, 2003 until October 29 of the year 2004. The key recommendations proposed and adopted by the GON are grouped by result.

B. Result 1: Enabling Environment for Increased Trade and Investment Enhanced

This section highlights the key recommendations proposed in the deliverables generated under result 1 and specified in *Performance Requirement 1: Develop foundations for a competitive, market-oriented economy*. The enabling environment for increased trade and investment enhanced performance requirement includes, at a minimum, to:

- Identify and prepare a strategy to attract significant flows of Foreign Direct Investment (FDI);
- Assess the economy conducted to determine how to increase trade and investment;
- Identify and prepare a strategy to attract business opportunities into the country.

Throughout the one-year period, the Nicaragua GBTI Task Order yielded significant national level results within these three categories of activities.

B1.1 Identify and prepare a strategy to attract significant flows of Foreign Direct Investment (FDI)

The Nicaraguan economy has performed insufficiently to meet demands for jobs and income, which underscores the need to turn to international markets for new economic opportunities. Attracting foreign direct investment has become a cornerstone of the country's development plan, requiring superior technical assistance in this area. Strategic recommendations made to the GON under the project proved a great success in attracting significant inflows of Foreign Direct Investment (FDI). The GON adopted and implemented virtually all recommendations with most assistance targeting Pro-Nicaragua's institutional capacity as the leading investment attraction agency. The National Institute for Tourism (INTUR) received considerable assistance for tourism promotion and development.

a. Taking a pro-active stance at FDI attraction

The first recommendation given to Pro-Nicaragua was the need for the agency to shift to a more proactive mode in order to significantly increase the number of leads for potential investments in the country. A second recommendation suggested that Pro-Nicaragua become involved, in a selective manner, in improving the legal and institutional framework that limits FDI inflow. It was advised that Pro-Nicaragua take on a selective policy advocacy role.

Both recommendations were adopted and implemented. Since March 2004, Pro-Nicaragua has taken a more proactive approach, conducting at least six international promotion campaigns, including taking part in: one campaign for textiles in Mexico; two fairs and two campaigns in tourism in both Costa Rica and Spain; and two campaigns in electronics in Mexico and California. Nevertheless, Pro-Nicaragua still needs to improve its “cold-calling” system to increase the number of leads. As a consequence of adopting a proactive stance, Pro-Nicaragua expects to increase the level of investment brought to Nicaragua to \$45 million for 2004, up from \$30 million in 2003. To achieve these results two additional persons have been hired to strengthen the investment promotion department. Pro-Nicaragua expects to significantly increase this figure in 2005.

The first step Pro-Nicaragua took toward assuming a selective policy advocacy role was to open a new policy department headed by a corporate lawyer. One of the first policy actions taken was to visit the 30 most important foreign investors in Nicaragua, to understand the policy restrictions that they are currently facing. Another outcome achieved was the formation of a working-group with representatives from Pro-Nicaragua, MIFIC, and immigration officials established to eliminate excess bureaucratic procedures and to study the possibility of providing multiyear residency cards for investors.

Significant advice was given to INTUR and Pro-Nicaragua to guide them in pursuing the country’s tourism strategy in a way that scarce resources could be better assigned to increase investment flows for Nicaragua.

During the working sessions with INTUR and Pro-Nicaragua, it became clear that the tourism sector needed a more focused development strategy. The fact that no target markets had been selected limited the effect of the poorly coordinated promotional campaigns. Since March 2004, INTUR has defined priority target markets, the United States, Spain and the Central American region (specifically Honduras, El Salvador and now Costa Rica), for promotional purposes.

**Increase FDI Flows
Areas of Recommendations**

1. Take a proactive investment promotion stance
2. Take on a selective policy advocacy role
3. Need a focused strategy for tourism
4. Develop telecommunication-based services
5. Draw strategy to further FTZ development
6. Focus on Food and Natural Resource-based industries

Developing the Tourism Industry

Recommendations:

1. Identify what types of tourism to promote
2. Prioritize tourism zones with particular potential
3. Focus promotional campaign in key target markets
4. Have INTUR lead, in coordination with private sector, the promotion process
5. Re-orient INTUR budget toward promotion
6. Undertake an “exposure tour” to D.R. and Costa Rica

Results:

- INTUR is now leading the promotion process
- Promotion budget has increased to 48% of total budget from 28% at the beginning of the year
- INTUR prioritized Granada and South Pacific zone
- Identified target markets are U.S., Spain and CA
- Conducted exposure tours to Dom. Rep. and Costa Rica

Another recommendation made was to conduct exposure tours to the Dominican Republic and Costa Rica and to initiate individual meetings with tourism investors in those countries. INTUR conducted both tours that allowed them to endorse Nicaragua to a selective group of investors in the sector. Senior economic advisor Efrain Laureano emphasized the importance of coordinating promotional efforts of the public and the private sector to increase effectiveness and avoid duplication. In response, INTUR has formed a public-private commission that coordinates tourism promotional efforts nationwide.

Another problematic area was that too little of INTUR's budget was devoted to promotional activities. Since March 2004, the proportion of INTUR's budget dedicated to promotional activities has grown to 48 percent, up from 28 percent at the beginning of the year. Finally, it was recommended that, to increase the effectiveness of the promotional campaigns and the country image campaign, it was necessary to select the most important potential tourism regions in the country as well as to better understand what types of tourism activities Nicaragua should promote. Since this recommendation was made, INTUR has undergone a regional prioritization process that has resulted in the selection of Granada and the South Pacific regions as the top tourism regions to be promoted by the country at present.

A third area demonstrating significant results was in the area of promoting investment in the internationally traded services sector in Nicaragua. Dr. Laureano arranged for Pro-Nicaragua and short-term specialist Eddy Martinez to do a PowerPoint presentation for Dr. Mario de Franco at the Presidency that outlined the importance and the potential the country has to develop.

Promoting Internationally Traded Services	
<u>Recommendations:</u>	
1.	Conduct an English capability assessment
2.	Establish an ESL program in the country
3.	Review legal framework on telecommunication and eliminate any identified barriers
4.	Add telecommunication-based services to the current special fiscal regimes under which FTZ.
<u>Results:</u>	
➤	Conducted the capability assessment
➤	"NicaSearch" data base being created at Pro-Nicaragua
➤	Conducted legal review
➤	Investors in Call-Centers and Back-office Services are already "negotiating" to establish operations in Nicaragua.

As a result of the presentation and the subsequent policy discussion, the GON agreed to conduct an English Capability Assessment that demonstrates to authorities and potential investors the actual Nicaraguan capabilities in offering skilled bilingual personnel to potential investors. The project made specific recommendations for conducting the assessment and for creating a database to facilitate the entrance of foreign investors who wanted to establish their "call-center" or "back-office" service operations in Nicaragua.

Additional recommendations were made to increase the FDI flow to Nicaragua. First, it was thought necessary for the country to separate the roles of the Free Trade Zone Corporation, a public enterprise that manages industrial parks, and the Free Trade Zone Commission, the agency that regulates FTZ operations in Nicaragua. Discussions were organized with Pro-Nicaragua, the FTZ top technical team, MIFIC, and the Colombian law-firm involved in drafting a new FTZ Law for Nicaragua. We understand that the draft bill under discussion at the National Assembly provides for a separation of roles of the two institutions, as recommended.

Finally, several meetings with Pro-Nicaragua and SECEP have taken place through which specific recommendations have been proposed for initiating FDI promotion in the food and natural resource-based industries in Nicaragua.

Nicaragua GBTI recommended that Pro-Nicaragua identify the 30 most important foreign investors in food processing, ornamentals and wood products

located in the Central American region. Once the investor list is compiled, Pro-Nicaragua will conduct individual interviews with these investors to seek their willingness to locate to the country and to determine why they would not establish a location there. Pro-Nicaragua has begun to actively address this sector. Together with SECEP, they are sending a local specialist to Costa Rica to interview investors in the ornamental and tropical flowers sub-sector.

Promoting Investment in Food and Land-based Industries	
Recommendation:	
1.	Identify 30 most important foreign investor in Central America
2.	Conduct individual interviews with investors
Results:	
➤	SECEP and Pro-Nicaragua are sending a specialist to Costa Rica to interview investors in the area of ornamentals
➤	A business plan to promote investments in the food processing, agri-based and wood products is being conducted at this point.
➤	A subsequent trip to Costa Rica and Guatemala will be organized for the food sector

B1.2 Assessment of the economy conducted to determine how to increase trade and investment

a. Support to the GON on elaborating a “Second Generation PRSP”

The Nicaragua GBTI Task Order was instrumental in providing timely policy advice to the President’s Chief of Staff, the Production and Competitiveness Cabinet, and the private sector to promote an enabling policy environment for increased trade and investment. In December 2003, the GON agreed with the donor community to elaborate an operational version of the country’s National Development Plan (NDP-O), which had been presented to donors and to Nicaraguans in September 2003. At the same time, the NDP-O served as a “Second Generation” Poverty Reduction Strategy (PRSP-II) and, once refined, will be presented to the IMF and World Bank boards. Through the Task Order, Chemonics provided technical assistance to various ministries and entities participating in the Production and Competitiveness Cabinet to promote a shift in their attention toward achieving key national level results.

Rather than preparing a policy review document to compete with or substitute those prepared by the IMF, the World Bank, and donor agencies, the Task Order took a hands-on approach to focus on policy coordination and on building consensus in prioritizing policy reforms that yield the most significant results in creating new economic and job opportunities. Targeting and managing results is not standard practice within Nicaragua’s productive sector, hence, a great deal of effort was devoted to refining the policy and development approach to foster within the productive sector to accelerate growth and to promote a vibrant, competitive and successful enterprise sector. An important feature that attributed to the success of the initiative was the integration of Dr. Laureano as a member of the Chief of Staff technical team. Through promoting active involvement and a dynamic participatory approach and strong relationship-building, Dr. Laureano effectively leveraged the degree of influence of the policy advice.

Key results and activities under this standard included:

a.1 Defining economic growth and policy reform indicators

- Supporting SECEP in organizing policy analysis/discussion meetings with key institutions within the productive sector to focus their actions and activities around some broadly accepted results deemed necessary to accelerate the rate of economic performance and to reduce poverty in Nicaragua.
- Promote through SECEP an informed debate on economic performance to date and the need to refocus efforts and actions toward a coordinated policy framework that favors the competitive development of firms that operate in Nicaragua.
- Together with participating ministries and agencies, provide assistance in determining specific strategies, intermediate results, and a coordination process needed to elaborate an operational version of the NDP.
- Once intermediate results were established for the Nicaraguan productive sector, work was conducted for productive sector institutions to establish concrete targets, activities, and a time-bound action plan that to lead to achievement of specified results.

**National Development Plan
Operational Version (NDP-O)**

Through a collaborative policy advice approach, the Nicaragua GBTI Task Order provided expert advice to the GON during the elaboration of the NDP-O. Within the productive sector program, the NDP-O focuses on two main objectives:

1. Building a competitive policy and economic environment conducive to trade, business development, and investment in Nicaragua. GBTI assistance was key in helping GON to focus its attention on the need to eliminate policy barriers and key business development constraints in:
 - Regulatory framework
 - Property rights
 - Access to finance
 - Export promotion
 - Attraction of Foreign Investment (FDI)
 - SME market linkages
 - Rural development
 - Sustainable environment
 - Infrastructure
2. Supporting the development of prioritized productive clusters, including:
 - Food and natural resource-based clusters (coffee, meat and dairy, shrimp, forestry)
 - Tourism
 - Light manufacturing

GBTI assistance was key in changing the GON view on clusters from a "picking-winners" promoting synergy and spurring enterprise development at the territory level.

The process of identifying key intermediate results, setting appropriate targets, and establishing evaluation and monitoring mechanisms to measure impacts proved to be especially challenging given the lack of coordination and institutional weaknesses of the various institutions that interact within the Nicaraguan productive sector.

a.2 Elaborating detailed operational matrixes¹

Through the GBTI Task Order's chief of party, Dr. Laureano, Chemonics provided expert technical assistance focused on guiding SECEP, MIFIC, Ministry of Agriculture and Forestry (MAGFOR), and the rest of the productive sector institutions, through the process of elaborating detailed operational matrices. Detailed attention was given to ensuring that the operational matrices corresponded to the GON actions and services that will be conducted and provided

¹ Dr. Laureano combined efforts with Gherda Barrientos, SECEP's lead technical analyst in charge of coordinating the work on productive sector operational matrices.

within the productive sector in collaboration with sector ministries. Operational matrices included the activities, actions, and GON interventions necessary to (1) build a competitive policy and economic environment conducive to trade, business development, and increased investment; and (2) support key productive clusters that have been prioritized to spur an accelerated growth rate in the short- and medium-term. Key areas of interventions for which operational matrices were elaborated include:

- Building a competitive policy and economic environment
 - Regulatory environment (administrative simplification, quality systems, competition policy)
 - Property rights and land conflicts
 - Access to financial services
 - Export promotion
 - Foreign direct investment (FDI) attraction
 - Small and medium enterprises
 - Rural development
 - Sustainable environment
 - Infrastructure
- Supporting selective productive clusters
 - Food and natural resource-based clusters (coffee, meat and dairy, shrimp, and forestry and wood products)
 - Tourism
 - Light manufacturing

Each matrix involved a four tier degree of specification including: (1) national goals, (2) specific objectives, (3) expected results, and (4) specific actions. This differentiated system allows for a different analysis to be conducted both by the GON and the donor community. It also adds value by integrating a significant degree of flexibility into the monitoring and evaluation process since any interested party can adapt their monitoring system to the degree of specification needed. The process for identifying needs at the territorial level was guided by a broad local participatory approach based on the local development councils throughout the country.

a.3 Completion of National Development Plan Operational version

The final draft of the Operational version for the National Development Plan (NDP-O) was widely distributed to the civil society and the donor community on September 22, 2004. Completing the NDP-O is a major step in placing Nicaragua on a different growth and economic opportunity path than what the country has experienced over the last three decades. The year-long consultation process that parallel the elaboration of the NDP-O, both between the GON and the civil society, and among ministries and government agencies, has resulted in a common strategy that balance the country's economic, social and institutional efforts for the next three years. The NDP-O is expected to be operational as of January 2005 after key comments from donors and civil society (expected by November 30, 2004) are incorporated, and resources are approved by the National Assembly as part of the 2005 budget approval process.

The contribution of the GBTI Task Order to the elaboration of the Operational version of the National Development Plan has been significant as Chemonics has been involved throughout the entire process through the assistance of Dr. Laureano. USAID should feel proud of having provided important and timely assistance to ensure that key economic reforms and GON intervention strategies were formulated and implemented in a way that places the enterprise needs and competitiveness at the center of the government strategy. While the major task now starts as the GON proceeds with implementation, the debate has certainly moved in the right direction and, in doing so, important reforms have taken place or are well advanced. Accordingly, Dr. Laureano's assistance has been key in helping the GON maintain a sense of direction as to where should Nicaragua direct its limited resources to promote strong and sustainable economic growth, which can have significant impact on poverty levels over the next years.

b. Evaluating/reporting on DR-CAFTA likely impacts

Dr. Laureano has actively promoted the idea that while the DR-CAFTA offers great possibilities for the Central American region, Nicaragua must go beyond the efforts of the other countries in the region to take advantage of opportunities identified. Recent quantitative analysis has shown the DR-CAFTA might result in a significant increase in textile and apparel product exports (\$3 billion) once the agreement is in full operation. Nicaragua has to position itself as a primary location for labor-intensive, medium-value, manufacturing in the region to attract new investment and take advantage of any increased trade flows in the textile and apparel sector.

The same analysis predicts a \$400 million decrease in export from the Central American region to the United States in other sectors of the economy. This estimated decrease, in part, results from general equilibrium models that have difficulty predicting changes in investment flows toward those sectors. We estimate that Nicaragua is well situated and has the potential for substantial export increases from the food and natural resource-based industries, as well as from the internationally traded services industries, including tourism. Potential, of course, will not likely result in actual benefits to the people in the absence of a well designed strategy and a time-bound action plan; rather, a successful strategic plan will focus on eliminating key constraints to business development and investment in these sectors.

US – DR/CAFTA Potential Impacts	
1.	Expected increase in exports to U.S. Textile and apparel: \$3 billion Sugar manufacturing: \$113 million Meat: \$13 million
2.	Expected decrease in exports to U.S. Services: -\$100 million Machinery/equipment: -\$96 million Electronic equipment: -\$56 million Fruits and vegetables: -\$31 million

Lessons learned from the Mexican experience under NAFTA suggest that a coherent and articulated action plan is needed to avoid further deterioration of the country's income distribution, and to prevent the penalization of the most vulnerable groups in the society. After 10 years of NAFTA implementation, the following impacts are observed:

- Those with higher levels of education and skills benefited more than those with lower levels of education.
- Large enterprises benefited more than small and medium-sized enterprises.

- Richer and better endowed regions tripled their per capita income, while poorer regions remained at the same level, worsening income distribution in the country.

Assistance provided through the GBTI Task Order, in this sense, focused on ensuring incorporation in the NDP-O of policy actions, and program implementation aimed at (i) promoting skill development through the social services provision centers, (ii) building strong and sustainable market linkages for SME, and (iii) eliminating bottlenecks that negatively affect competitiveness at the territorial level, among other issues.

A policy dialogue was initiated with the DR-CAFTA negotiating team to ensure that the country established an institutional and regulatory framework to manage the trade agreement. MIFIC has made significant advances in this area, but much remains to be done to ensure that Nicaragua takes full advantage of new market access opportunities, especially in areas where unilateral and temporal Caribbean Basin Initiative (CBI) benefits have been made permanent through the agreement.

The 2004 World Economic Forum Competitiveness Report still places Nicaragua at the bottom of the long list of countries, only ahead of Haiti and Honduras in the hemisphere. Increased market access mechanisms open up new opportunities for Nicaragua, but these potential opportunities will not change people's living conditions unless a decisive effort improves the country's competitiveness position.

There is much discussion about the term "competitiveness," and in Nicaragua the term often gets confused with a label or with the title of a specific project. However, the country as a whole is not doing enough to spur a new vibrant, successful and competitive enterprise sector that can participate in the international markets and generate new job and income opportunities.

US-DR/CAFTA	
New Opportunities at Door's Steps	
To take full advantage of new market access opportunities Nicaragua would need to:	
1.	Focus on accrued benefits resulting from unilateral and temporary CBI benefits being made permanent.
2.	Bring the enterprise sector to the center of policy formulation, adoption and implementation.
3.	Focus on food and natural resource-based industries; increasing FDI flows and supporting the emergence of a new vibrant, successful and competitive enterprise sector.
4.	Find ways to create a "National Compromise" around some basic fundamentals that allow the country to address issues such as property rights and the judicial guarantee needed for business to flourish.

c. Adopting a more pro-enterprise stance in Nicaragua

The GBTI Task Order presence and assistance has been central in accelerating a mindset change in Nicaragua in favor of enterprise development. In a country where profits and private sector development is still viewed as socially undesirable by a considerable portion of the policy makers and the population, this has not been a small task. Through the participation of a small Nicaraguan delegation in the Strategic Investment and Competitiveness Workshop in Ireland in June 2004, and the coordination of a highly successful technical assistance visit by Irish specialists in September 2004, the GBTI Task Order has influenced top policy decision makers, including President Bolaños and the 12 key ministers in the GON cabinet. They are now well in tune to the importance of placing the enterprise sector at the center of the economic policy debate. Leveraging resources from other USAID projects in Nicaragua, the GBTI Task Order coordinated the highly successful Irish specialists' visit to Nicaragua. One immediate result of

the PowerPoint presentation to the President and the Cabinet was an increase in more than 50 percent in the budget being proposed to fund Pro-Nicaragua.

Another immediate outcome was to increase even more the amount of money budgeted for education, especially resources earmarked for vocational and technical education. Another key result is the renewed importance of investment attraction and business development that the Nicaraguan president himself has stressed in public appearances, naming Ireland as an example to imitate.

Key points discussed with policy makers during the technical visit of the Irish specialists included:

- | Promotion of a More Pro-Enterprise Stance in Nicaragua |
|--|
| <p>Key results achieved through the GBTI Observation Tour to Ireland and the subsequent technical visit to Nicaragua, include:</p> <ol style="list-style-type: none"> 1. Increasing Pro-Nicaragua proposed 2005 budget by more than 50 percent. 2. A mindset change of the President and key Cabinet members toward the importance of attracting FDI. 3. Realization of the need to establish a coherent institutional frame that promotes enterprise development in the country. 4. Understanding that having "potential" will not be materialized unless the GON and all the key decision makers in the country (including political parties, the GON and the private sector) come together and agree to some basic and clear policy results that the country would seek in the next two to three years. |
- The level of jobs and opportunities sought by the population can not be met by the local private sector — the country needs to turn to FDI as a central economic driver.
 - Organizations can not move forward without a “Partnership Agreement” that brings all the key interest groups together (i.e., GON, National Assembly, labor groups, private sector, and the population). The GON has to provide the necessary leadership to place the country’s interests above that of individual groups.
 - Country resources are limited; investments are needed where the country can obtain the highest return. Social expenditures are good, but if the country can not grow faster, these expenditures are not sustainable.
 - Education and the enterprise sector should take first priority to promote accelerated growth in Nicaragua.
 - Nicaragua needs to establish itself as the “best” investment location in the region for certain areas — can not compete in everything, everyone else is moving fast.
 - And more important, the perfect plan and the perfect solution will never come.
 - Needs to take a practical and proactive approach — shift to implementation, and learn from mistakes; just do it!
 - Communicate strategy, action plans and results to the population.
 - The donor community, EU and USAID, played an important role in supporting Ireland’s vision and economic transformation program. They could be very helpful to Nicaragua, but the GON has to provide leadership.

Ireland’s practical approach to the policy process represents the weakest link for Nicaragua. While Nicaragua has elaborated a National Development Plan that sets forth a new and

innovative vision, and while several strategies have been identified to transition toward the outlined vision, significant work remains to be done in implementation.

The stronger pro-enterprise stance that the GON has adopted has strengthened the NDP position that Nicaragua needs to accelerate growth to meet the basic needs of its population and decrease its dependency on donor funding. It has also started to influence the process of improving coordination of donor programs in a way that has accelerated growth and enterprise development, which has become the economic driver to create new economic and job opportunities. Again a necessary condition is the reduction of poverty in the country. One key lesson learned from Ireland that was shared with the President, the Cabinet, the legislators and the private sector was the need to shift gears from policy formulation and strategic planning to implementation. This particular point has been stressed throughout the entire period of the GBTI Task Order.

B1.3 Identify and prepare a strategy to attract business opportunities into the country

The GBTI Task Order provided technical assistance in identifying and preparing a strategy to attract business opportunities. In collaboration with the SECEP and MIFIC, a high level specialist developed a strategy to discuss with relevant stakeholders. Recommendations include:

- Nicaraguan private sector organizations are weak, which limits private sector participation in policy formulation, adoption and implementation, and at the same time, reinforces rent-seeking behavior and powerful groups' control of policy discussions. There is a need to strengthen organizations and for the broader private sector to take on leadership role in the country.
- Tourism as a sector offers unique opportunities given its forward and backward linkages to the rural economy. The country needs to focus its effort on those tourist areas with the greatest potential. It also needs to focus on developing an effective promotional campaign that underscores positive aspects of the country such as the higher level of personal security vis-à-vis its neighbors.
- One key source of competitiveness in the country is the telecommunication sector. While privatization has resulted in significant upgrades in services and a multiplication of users, the country still can derive significant gains from this sector, especially once the ENTRESA fiber optic network is completed. Nicaragua has a potential advantage in promoting telecommunication-based service industries, which makes this sector top priority for policy makers.
- Nicaragua is one of the countries in the region with the highest potential to develop the electricity sector. Realizing this potential requires significant changes in legislation to allow for private investment in this sector.
- Transportation costs represent a true disadvantage to Nicaragua when compared to Honduras, Costa Rica, and Guatemala. The country needs to explore ways to reduce this disadvantage in order to improve its competitiveness position. Two recommendations that should be explored are: First the country should establish peripheral custom houses at Puerto Cortez, and it should also study the feasibility of establishing an in-bound container handling facility, or "dry port," to improve logistics and lower transportation costs.

- Competitive investment attraction programs require a good “country image.” It is recommended that Nicaragua establish a “country risk rating” using an international rating firm as a way to improve its international image.
- Additional infrastructure investment undertaken to join the western side with the Atlantic region will open up new business opportunities, especially in the food and natural resource-based industries. One such an opportunity can be found in initiating a “National Coco Initiative.”
- One fundamental aspect of FDI is that it follows local investment movements. Accordingly, the country needs to find ways to promote local investment as a way to foster FDI inflows.
- Nicaragua should facilitate the establishment of foreign banks that can serve as benchmarking to foreign investors evaluating whether or not Nicaragua is a good location to do business.

One example of how the GBTI Task Order presence not only resulted in useful policy recommendations, but also helped avoid important pitfalls found in the telecommunications arena. Pro-Nicaragua chief executive officer informed Dr. Laureano of the presentation made by ENTRESA and MIFIC to the Production and Competitiveness Cabinet aimed at using the new fiber optic communication network to charge high enough tariff so profit could be used for providing electricity subsidies to poor families and for productive uses.

Attracting New Business Opportunities	
<p><u>Key Results:</u></p> <ol style="list-style-type: none"> 1. MIFIC and ENTRESA wanted to use the new fiber optic network as a way to compensate for electricity subsidies to poor families. Through a successful policy dialogue GBTI convinced decision makers that this course of action would actually defeat the purpose of the investment, which is to lower the cost structure for voice and data transfer making Nicaragua a good location for the internationally traded service industry (i.e., call centers, back-office services). 2. Conversations are underway to establish peripheral customs arrangements with Honduras and to explore the feasibility of a dry port in the country. 3. Tourism authorities are undertaking a major promotion effort to improve the country's image as a tourist destination as well as a good location for tourism investment. There is a lack of understanding of the present incentive framework (Tourism Bonds), on the part of the population that needs to be addressed. 	

Through meetings with SECEP, COSEP and TELCOR, Dr. Laureano made it clear that the main purpose of building the network was to lower the costs of telecommunication-based services, which could result in developing an internationally traded service sector in Nicaragua by attracting investors in industries such as call centers, insurance claims management, medical claims management, and other back-office operations. Establishing new public sector enterprises is not the best way to promote the country's competitiveness in this sector. Rather, the GON should make the new network available for private sector to connect in non-exclusive arrangements, promoting competition and allowing for telecommunication costs to decline.

Another example can be found in the proposed “National Cocoa Initiative.” After the argument was discussed with MAGFOR, MIFIC, and SECEP, it has taken on a life of its own. Many people are now talking about the initiative; however, this is a medium-term effort as the country needs to develop the resource base before it can be a player in the international markets. Given the volatility of cocoa prices, this initiative should be also accompanied with a “Precious Wood Reforestation Initiative.” In this sense, cocoa farmers will be increasing their incomes as harvest time for timber approaches. This initiative should also include the required laboratories

installations to ensure disease control. Finally, such an initiative has to start with the market and the attraction of investment into the sector.

C. Result 2: Key Economic Policies Reformed and Actions Taken to Improve Economic Incentives Incentives and Business Environment for Increased Trade and Investments

This section highlights the key recommendations proposed in the deliverables generated under result 2 and specified in *Performance Requirement 2: Key economic policies reformed*. The Key Economic Policies Reformed and Actions Taken to Improve Economic Incentives and Business Environment for Increased Trade and Investments performance requirement would include at a minimum:

- Preparing a matrix of priority macro and micro-economic reforms, with priority to those related to implementation of the US-DR/CAFTA;
- Monitoring key economic reforms and advising the SECEP on policy reform issues;
- An assessment and recommendations for economic incentives.

Within these three categories a series of activities were performed throughout the one-year period of the Nicaragua GBTI Task Order. A priority macro and micro-economic reform matrix was prepared and submitted to USAID for ease of reference and to spark policy dialogue. The matrix included all the country's policy commitments to the IMF and the World Bank. Other activities under this performance requirement are addressed below.

C2.1 Monitoring key economic reforms

Dr. Laureano prepared a document on short-term economic reforms for USAID in both English and Spanish to disseminate information among interested parties so as to encourage broad-based discourse.

a. Short-Term Economic Reforms

Short-term reform recommendations were identified at the beginning of the Task Order, including the need to:

1. Deepen the administrative simplification process by reducing enterprise registration procedures and modifying the commercial code.
2. Establish a Customs Task Force to eliminate excess bureaucratic red tape and to lower transaction costs for the enterprise.
3. Create a business visa category to avoid discriminatory treatment to investors and allow for normal business practices to take place.

Short-Term Reforms	
	<u>Results:</u>
	1. Business registration time has decreased from an average of 65 days to 45 days, placing Nicaragua second to Costa Rica in the region. This process is expected to continue under the NDP-O implementation.
	2. A "Custom Task Force" has been formed between Custom, MIFIC and the FTZ Commission. A custom deputy director for FTZ operations is being proposed.
	3. A working group between Immigration, MIFIC and Pro-Nicaragua has been formed to propose elimination of excess bureaucratic red tape for investors.

4. Simplify immigration procedures in providing investor residency cards and allowing the shipping of personal household effects into country.

While most problems still linger, significant advances in each areas have been made over the last year. GBTI assistance and policy dialogue primarily focused on formally addressing customs concerns and simplifying immigration procedures for investors. In the first case, key meetings were hosted with MIFIC and Free Trade Zone (FTZ) technical teams, as well as with the legal firm involved with drafting a new FTZ Law for the country. In the case of facilitating immigration procedures, a meeting was hosted with the Minister of Governance and conversations held with key immigration legal advisors to improve the situation for investors who decide to relocate to the country.

b. Institutional and Regulatory Reforms Needed to Implement US-DR/CAFTA

Under the GBTI Task Order an assessment was conducted after the signing of the US-DR/CAFTA agreement to examine the required institutional and regulatory changes that Nicaragua will have to assume to implement the trade agreement. Ten months later, Nicaraguan authorities have made the following advances:

1. In the area of establishing key institutional and regulatory frame, the GON has already undertaken the following advances:
 - a. An office for Trade Agreement Administration was established in August 2004.
 - b. The authorities are in the process of establishing a quota administration office to manage the textile and apparel quota.
 - c. MIFIC and MARENA have increased internal coordination of trade and environment.
 - d. Trade and labor remains a weak area that requires additional work, though several proposals are being analyzed, including one from the U.S. Labor Department.
 - e. Phyto-sanitary systems remain weak and represent a major concern that needs to be seriously addressed.
 - f. MIFIC will propose changes to the Medicine Purchase Law to allow MINSA to buy genetic medicine when appropriate.
2. In the area of trade conflict resolution, a Controversy Resolution Team was formed. This team has already achieved impressive advances for the country, including trade dispute wins in cases against Mexico, Costa Rica, Dominican Republic, Honduras, and El Salvador.

Regardless of the impressive advances embarked on by MIFIC in trade treaty administration, the country needs to make this a priority. The private sector is asking the GON to expand the present structure of MIFIC to add a vice-minister of international trade. This proposed change requires reforming the Law 290 and adding budget resources.

On a national level, it is crucial that authorities assign textile and apparel quotas in a way that maximizes social well-being. Fortunately, authorities are well aware of this need. Assignment of quotas will follow transparent and economically efficient criteria. The country could be adding some 50,000 additional jobs over the next five years in the textile and apparel sector if Nicaragua can position itself as a good business location as the rest of the region begins losing low-cost based industries to China once the multi-fiber agreement ends in 2005.

c. Key reforms to place the enterprise sector at the center of the country's development efforts

Nicaragua continues to discuss competitiveness but the country continues to drop further down in its international competitiveness ranking. One problem is that while the term *competitiveness* has become popular, little has been done (i) to understand Nicaragua's position, taking into account a wide range of factors and indicators, compared to that of its competitors; (ii) to improve the legal and property rights system that affects the country's enterprise sector; and (iii) to support the emergence of a new vibrant and successful enterprise sector capable of competing in the international market and creating jobs and the economic opportunities.

Key micro-economic and firm-level reforms that should be initiated over the next couple of years include:

- a. Establishing a "benchmarking" system to systematically compare Nicaragua to the rest of the countries in the region, and to other key international competitors, including categories such as:
 - Business and work environment
 - Economic and technological infrastructure
 - Education and skills
 - Entrepreneurship and enterprise development
 - Productivity per worker
 - Cost: insurance, broadband, telephone, rent
 - Prices and wages
 - Macroeconomic performance
 - Sustainability, social capital, and long-term planning

Benchmarking analysis and feedback to systemic process of policy formulation and implementation should be the main source of input to improve the country's competitiveness position over time. This is a powerful policy tool, one that will definitely help open policy makers' eyes to what the position of Nicaragua is vis-à-vis the rest of Central America, and how best to promote investment and enterprise development in Nicaragua. This recommendation was brought up in discussions with the World Bank and the CPC. To this effect, a new monitoring department has been added to the CPC. The main function of this new monitoring department is to conduct benchmarking analysis; however, this effort is still in its fledgling stage.

- b. The strengthening of Pro-Nicaragua's planning department is a fundamental requirement for preparing "Location Dossiers" for different economic regions and for simultaneously stressing regional advantages such as exiting resources, attractions, cost structures, and human capital formation in Nicaragua. These dossiers are the first of proactive steps to attract investment to areas with potential to contribute to economic development and employment generation.
- c. Another focal point for Nicaragua is to initiate negotiations with a select number of countries for the purpose of entering into "Double Taxation Agreements" as a means to spur investment in Nicaragua. These agreements should be negotiated with:
 1. Countries that already invest in Nicaragua (e.g., United States, Taiwan)
 2. Prospective countries interested in establishing investment operations in Nicaragua to take advantage of U.S. market access provided under CAFTA (e.g., European Countries)

The Double Taxation Agreements should focus on obtaining the maximum possible tax offsets for firms investing in Nicaragua. In some cases, the opportunity may arise to negotiate a "one-tax" system, where tax paid in Nicaragua would be the sole corporate tax charged to the firm. Double Taxation agreements are powerful tools for attracting investment and creating jobs. However, this is a tool that Nicaragua has not yet used. The primary advantage of this tool is that the existence of these agreements creates an enabling environment that allows the country to establish an advantageous investment regime. This mechanism could be put in place together with a sector wide low-corporate tax regime for manufacturing.

C2.2 Economic Incentives Assessment and Recommendations

Chemonics' assessment of Nicaragua's economic performance and the incentive framework for the productive sectors underscores the need to accelerate economic growth through:

- The consolidation of macroeconomic stability

Economic Incentives
<p>There are a wide range of economic incentives already in place in Nicaragua. However incentive programs are not always transparent and are not always geared toward promoting economic efficiency and increasing productivity. Key incentives include:</p> <ol style="list-style-type: none"> 1. Implement a new rural development program to provide clear incentives and a framework to promote integrated rural development. 2. Foster an aggressive medium-term property formalization program with a short-term action plan to eliminate one of the most serious impediments to growth in Nicaragua. 3. Undertake a more articulated investment promotion program focused on high-potential growth sectors such as the food industry, agribusiness, electronics, vertically integrated textiles and apparel, internationally traded services, and tourism. 4. Adopt a more proactive cluster development strategy to link local productive capacity more directly to market opportunities, FDI, and value-added initiatives. 5. Shift focus on competitiveness from the point of view of gaining and sustaining Nicaragua's competitiveness in its economy-wide cost dimension and in all the other dimensions. 6. Address structural deficits and supply-side weaknesses that limit the capacity to achieve strong economic growth. 7. Promote and maintain competition across all sectors of the economy to ensure maximum efficiencies and lowest cost goods and services for the population. 8. Promote the visualization and communication to the public, of subsidies, transfers, and other government supports to the private sector as a basis for elaborating a broader equity policy in the country. 9. Reduce pressure on the environment and respect Nicaraguan's international obligations.

- An improved microeconomic incentive framework conducive to trade, business development, and investment

With hopes of achieving these results, the GBTI Task Order engaged in extensive policy dialogue with SECEP, MIFIC, the Central Bank, and others that centered on the need to shift from policy formulation to policy implementation on multiple fronts including:

- Crafting implementing mechanisms to undertake a new rural development program that provides clear incentives and a framework for promoting integrated rural development to farm and non-farm enterprises by linking high potential enterprises to markets through domestic and foreign direct investment opportunities;
- Designing an aggressive property formalization program to eliminate one of the most serious impediments to growth in Nicaragua;
- Fashioning a better articulated investment promotion program focused on high-potential sectors such as the food industry, agribusiness, electronics, vertically integrated textiles and apparel, internationally traded services, and tourism;
- Envisioning and incorporating existing transfer mechanisms as a basis for elaborating broader equity policy in the country;
- Adopting a more proactive cluster development strategy to directly link local productive capacity to market opportunities, to attract investment, and to foster value-added initiatives.

This assessment accentuates the need to adhere to clear policy principles at the policy and competitiveness levels in order to build on the strong macroeconomic stabilization program instituted by the country in the last two years. It also stressed the need to support a more active private sector, both domestic and foreign, that is eager to approach and access new markets and that is willing to take advantage of new opportunities resulting from US-DR/Central America Free Trade Agreement (DR-CAFTA) and other recent trade agreements. To take full advantage of the new opportunities available through the US-DR/CAFTA, it is necessary that:

- The GON allocation of the textile and apparel TPL, as well as sugar quotas, is guided by the principle of maximizing social impact.
- Nicaragua establishes itself as a prime location for medium-value manufacturing in the region to attract U.S., Asian, Middle East and Central American investors who want to take advantage of the permanent benefits made available with this trade agreement.
- Becoming a prime location for medium-value manufacturing, though, requires a major mindset change. Foreign Direct Investment will not come to Nicaragua, in the amount required, unless the country can show that Nicaragua is a good location for doing business in a profitable manner.

Similarly, to accelerate the crucial change in mindset in the enterprise sector and to further improve the competitiveness position of firms operating in Nicaragua, it is necessary to:

- Establish a comprehensive business development assistance package that allows Nicaragua to make headway in its development process.
- Promote a concerted public-private effort to address competitiveness determinants at the industry and firm level.
- Strengthen enterprise support programs aimed at improving the competitiveness position in order to spur a new entrepreneurial spirit within the local industries, especially in the food and natural resource-based industries.
- The status quo is not a viable option for Nicaragua as the rest of the region is moving fast to readjust their reality to the new market environment and the new opportunities.

The majority of the recommendations mentioned above have been incorporated into the final version of the country's NDP-O. The main result under this performance requirement has been to foster an informed debate among key GON ministries, and especially at the SECEP, on the need to shift gears toward policy reform implementation and to reiterate the pivotal role that the enterprise sector needs to play during the stages of government policy formulation, adoption and implementation.

In Nicaragua, both the public and private sector place too much weight on the leadership role of the public sector in promoting new economic opportunities in the country. This particular view creates serious problems because, in many ways, the private sector feels it should not be responsible for providing that leadership for the country and thus prefers to take the back seat while the government creates conditions. The example of El Salvador and Costa Rica should be of particular interest to Nicaragua, given the stellar leadership role that the private sector plays in those countries.

There is a clear difference in the overall policy and competitiveness debate when compared to just a year ago, before the GBTI Task Order was issued. While Chemonics cannot take credit for the whole mindset change, everyone involved acknowledges that the constant presence of Dr. Laureano and expert short-term technical advisors has played a fundamental role in this positive outcome.

A new momentum is permeating Nicaragua's private sector, which reflects the positive changes happening in the political arena. Just over a year ago, there was widespread pessimism as producers and entrepreneurs did not see how they could respond to potential opportunities sought by trade authorities. Although the road ahead is long and complex, Nicaraguans are now talking about actively participating in these new opportunities and gaining from them. To raise new momentum to the next level, it is necessary to establish a comprehensive business development services assistance package to help firms improve their competitive position in a wide range of competitiveness functions including:

- Sales and marketing
- Innovation
- Technology and production
- Management and leadership

- Finance and accounting
- Human resource development

Furthermore, there is need for a concerted effort to foster public-private partnerships. This synergy is required to improve competitiveness and to allow industries to grow in parallel with the value chain.

D. Result 3: Improve Nicaragua's Economic Competitiveness by Increasing the Participation of Private Sector Groups and other Relevant Stakeholders

This section highlights the key recommendations proposed in the deliverables generated under result 3 and specified in *Performance Requirement 3: Barriers to trade identified and strategies formulated and implemented. Private Sector groups and other relevant stakeholders participate and influence the identification and removal of barriers to trade and investment.*

The performance requirement for Result 3, Improve Nicaragua's Economic Competitiveness by Increasing the Participation of Private Sector Groups and other Relevant Stakeholders, stated that, at a minimum, the Task Order was to:

- Conduct policy dialogue with the private sector on key barriers to trade and investment.
- Generate an assessment of barriers/constraints to trade and investment;

D3.1 Conduct policy dialogue with the private sector on key barriers to trade and investment

One of the first activities implemented under the Task Order was to prepare a policy recommendation briefing paper for the Competitiveness Presidential Commission aimed at forming a Business Roundtable (BR) that can act as a Policy Review Board. The paper called for the CPC to expand its current Board of Directors to become more representative of the Nicaraguan private sector, and to take on a more formal policy review role. Extensive discussions on recommendations were held with the Minister of Trade and Industry, the last two executive directors of the CPC, and two key private sector representatives participating in the CPC's Board. As part of these discussions, it was recommended that the CPC be housed outside MIFIC as a way to separate the CPC roles from those of the Ministry.

In October 2004, after eight months, all recommendations are being put into place, eight months. One of the two key private sector representatives to the CPC recently acknowledged the effect that previous policy discussions between our GBTI chief of party and the CPC have had on the recently approved changes to the CPC. Under the CPC briefing paper a formal "Policy Review" mechanism was proposed to the CPC. However, more work is needed in this area. It is a notable achievement that most

Business Roundtable Recommendations to CPC	
<u>Recommendations:</u> (January 2004)	
1.	Expand Board to include more private sector representatives
2.	Let private sector to be President of the Board
3.	House CPC outside MIFIC
4.	Take on a Policy Review Board function
5.	Use benchmarking as key competitiveness tool
<u>Results:</u> (September 2004)	
•	Board has been extended
•	Private sector will be President of Board
•	CPC is moving out of MIFIC
•	CPC beginning to use benchmarking
•	Work still needed for CPC to take on a Policy Review Board function.

recommendations to the CPC are being put into effect, in light of the resistance encountered when they were first proposed.

During the year of implementation of the GBTI Task Order a series of policy meetings have been hosted and documented with different private sector groups in Nicaragua. USAID has placed a significant amount of importance on this activity, given the consensus on the key role that private sector participation has in advancing the competitiveness process in Nicaragua. Policy meetings with the private sector have been important as a venue for communicating and listening to perspectives of the country's business and investment climate and to understand self perceptions in the process of accelerating growth performance for the next three years.

When confronted with the question, "why isn't the Nicaraguan private sector investing more in the country?" Some of the private sector's typical responses were:

- There is a high level of political influence within the judicial system in Nicaragua that undermines investment and business development.
- Another significant problem is the high electricity service costs.
- Existing infrastructure does not guarantee sound investments in the country.
- There is too little development and too few success stories to replicate. There are no clearly successful industries since 1990, except for the banking system.
- The GON could be sending mixed signals when trying to direct the economy by providing too many incentives to specific sectors.
- The inflexibility in the labor market drives up costs, though it is somewhat leveled by low wages for employees.
- There is a need to take the public registry away from the Supreme Court.
- No coherent business development service program is available to support the growth of the SME sector and their linkage to competitive markets.
- There is a need to attract foreign banks to Nicaragua that can serve as benchmarking to potential investors.

Given the specified constraints, the question then turned to: What would the private sector need to increase investment in Nicaragua? Some responses:

- A reduction in excessive regulations and norms, especially in the agricultural sector, which clearly contradict the GON's desire to create new jobs.
- Given the important role of the agricultural sector, the GON should expand its administrative simplification effort to include the agricultural sector.

GBTI/Nicaragua Meetings with Private Sector Groups	
1.	Private Sector in CPC Board
2.	COSEP
3.	AMCHAM
4.	PROVIA
5.	LaFise Group
6.	Western Union Group
7.	Aceitera El Real (Grupo Banpro)
8.	Continental Bank
9.	Other Private Sector Reps (Adolfo Arguello and Donal McGregor)

- The GON should ensure a more stable policy environment. There is a strong perception that the GON can change the rules of the game at any time.
- Given the high cost of petroleum products, the GON should put forward an incentive law to bring new investment in alternative energy sources including: hydroelectric, wind and geothermic energy.
- The GON should have in place a monitoring system to assess performance of new administrative simplification mechanisms.

One concern voiced by key private sector leaders is that, given the lack of rule of law and the influence of the political parties in the court system, the private sector is afraid to report on irregularities, bribes, and judicial cases brought forward as a way to eliminate competition in the local market. Accordingly, Nicaraguan business people would rather pay off corrupt court officials to avoid a politically driven judicial case against them. These findings reinforce the need to organize a strong public awareness campaign with the private sector aimed at publicly denouncing all attempts at bribery and extortion emanating from the court system. There cannot be a change in the system unless Nicaraguans are willing to come forward and demand this change.

Nicaraguan Private Sector Key Policy and Developmental Constraints
<p>Key issues that limit investment and private sector development in Nicaragua include:</p> <ul style="list-style-type: none"> • High political influence in judicial system • High electricity costs • Lack of productive infrastructure • Lack of success stories to replicate • Labor market inflexibilities • Excessive bureaucratic procedures • Lack of coherent BDS programs • Lack of foreign banks that serve as benchmarking to investors • Lack of clear rules for business and investment

D3.2 Business Roundtable

The GBTI Task Order proposed the creation of a Business Roundtable to serve as a “Policy Review Board,” a mechanism to analyze policy constraints from the private sector’s point of view for discussion with the GON. Given the difficulties faced by the CPC to get organized and to focus on the elimination of key constraints that undermine competitiveness in Nicaragua, the BR concept was replaced by holding individual policy meetings with private sector groups that yielded the above mentioned findings. Nonetheless, the original concept is being resuscitated under the process of implementation of the NDP-O.

The GON started a weekly meeting with COSEP, the country’s broader business association, to foster an open public and private sector dialogue on the proposed operative version of the National Development Plan. During the weekly session, the private sector will review GON performance under the NDP-O and discuss key policy and development constraints limiting the country’s business and investment climate. In the words of the government, they would like the private sector to hold the GON officers accountable for actions and programs outlined in the NDP-O. That is, if a particular road is a key component for improving the competitiveness position of a locality and construction does not start on schedule, the private sector should use the weekly meeting as a vehicle for bringing attention to this failure, convening a one-on-one meeting with the minister of transportation to review causes of delay and to call for a response to the problem from the GON. The same is true for the administrative simplification process and other key policy reforms outlined in the plan.

In providing the BR paper to the SECEP and discussing the content with Dr. Mario de Franco, Dr. Horacio Rose and Mignon Vega, the GBTI Task Order prompted a dialogue about the need to have private sector inputs to the GON process for policy reform formulation, adoption and implementation. It was an important ingredient that served as the basis for the GON-COSEP policy discussion session. This mechanism however, is in its fledgling stages and needs to be guided and strengthened to ensure continuity of important results.

D3.2.1 First Quarter Private Sector Meetings

Over the period of November 1, 2003 through February 26, 2004, the GBTI Task Order conducted a series of efforts to promote the establishment of the Business Roundtable. These efforts included meetings with public and private sector representatives and the elaboration of a detailed description of the BR outlining the role, composition, operating procedures, and expected outcomes from such an initiative. Nonetheless, while most parties agree on the importance of an organized and strong instrument in place to serve as private sector counterpart to both the government and the donor community, no one was ready to take the lead in making this instrument operational.

To help coordinate this effort and to support SECEP in its donor coordination role, a series of policy meetings were undertaken. During the first quarter of implementation, two key meetings were held with high level public officials to discuss the idea of establishing a Business Roundtable to serve as a private sector link to the National Development Plan implementation process. The first meeting was held the second week of November at MIFIC. Participants included Minister Mario Arana and other high level MIFIC staff members, including Ana Cecilia Tijerino, Ivan Saballos, and Alejandro Arguello. During this meeting Minister Arana made a presentation on MIFIC efforts to reengineer the Export Promotion Center (CEI) and discussed work underway with the Presidential Commission for Competitiveness (CPC). The minister also presented the outcome of the World Bank-FIAS study on business and investment climate. While the work performed by MIFIC on these fronts has been sizeable, no significant advancement has occurred toward improvement of the business and investment climate.

Accordingly, the BR idea was presented as a practical approach to regulatory and micro-economic policy changes where the private sector could take a predominant role in furthering these changes. Dr. Laureano conveyed the policy change process to describe in the BR proposal and pointed to the effectiveness of this mechanism for increasing Foreign Direct Investment flows and promoting exports in the Dominican Republic. Minister Arana concurred with the general idea of the BR and promised that some of his people will team up with Dr. Laureano to follow up on this idea.

A similar meeting was hosted with Horacio Rose from the SECEP to explore the feasibility and appropriateness of establishing such a mechanism. This meeting took place the third week of November and, like the outcome MIFIC meeting, it was agreed that a detailed description of the idea needed to be drafted before the idea could be put into practice. Following the directions of SECEP and MIFIC, a detailed Concept Paper explained roles, proposed participants and procedures for policy identification, policy modification, and included an initial agenda. The

concept paper was sent to MIFIC and SECEP on January 9, 2004, however, responses indicated the hesitant nature of these agencies to act upon the proposed plan.

From November 2003 to February 2004, informal meetings took place with private sector representatives, including Eduardo Montiel from the CPC and Pro-Nicaragua, Adolfo McGregor from the CPC, and Enrique Pereira from AMCHAM, among others, to explore views of the private sector on the BR proposal. The private sector agreed that the BR will help accelerate the rate at which policy reform decisions are made in Nicaragua. Some, however, did express concern that the many private sector meetings did not lead to any concrete results and it was evident the sentiment was that these meetings were in fact ineffectual.

Likewise the meeting with Carlos Fernando Chamorro, a key opinion maker, Adolfo McGregor from CPC, and Danilo Manzanari, Secretary for the CPC, concluded by pointing out that a clear limitation exists in that the Nicaraguan private sector is centered on its own interest and thus makes it difficult to further reforms that promote a broader participation of local and foreign investors in the country. A formal follow-on meeting was held with Danilo Manzanari on February 24, 2004 to form a strategic alliance on the BR subject. The outcome of this meeting was inconclusive although Mr. Manzanari agreed to review the possibility of creating the Presidential Decree of the CPC together with the proposed function of the BR and to present this to the CPC during the next scheduled meeting. Interestingly, the pointed account given by Don Enrique Dreyfus, a key member of the CPC and member of the President Kitchen Cabinet, rightly signaled the urgent need for change in the mentality of the private sector, which seems to have lost the spirit of “entrepreneurship.”

D3.2.2 Second Quarter Private Sector Meetings

During the second quarter of the GBTI Task Order, two principal meetings involving the private sector were held. The first meeting was held on April 14, 2004 with LaFise Financial Holding and the second meeting, which took place on June 7, 2004, was a small brainstorming session with Adolfo Argüello and Donal McGregor to explore ways to accelerate economic growth and create jobs in Nicaragua, in light of the MCA program conducted by President Enrique Bolaños.

The April 14, 2004 meeting with the director of LaFise-Agribusiness, Enrique Zamora, opened with Mr. Zamora providing a detailed account of the salvage operation organized to avoid the public optioning of Parmalat assets. The main purpose of the operation was to avoid national chaos within the milk producing sector of Nicaragua, one that would have left thousand of small and medium producers without a market, given Parmalat’s dominant position in the milk market in Nicaragua. The Parmalat rescue operation turned out to be more risky than anticipated by Bancentro and LaFise. Through a judicial decision, ex-banker Haroldo Montealegre obtained a favorable court decision to be the beneficiary of Bancentro and LaFise interest in Parmalat. This decision was reached as a way to ensure payment of a controversial \$6 million dollar law suit that Mr. Montealegre won against Bancentro’s president Roberto Zamora. This court decision is evidence of the damaging role that the Nicaraguan judicial system is having on business development and investment in the country.

President Enrique Bolaños’ brainstorming session brought together Dr. Mario de Franco from SECEP, Dr. Mario Arana from MIFIC, Eduardo Montealegre from the Presidency, and Dr.

Laureano from Chemonics. During the meeting, Dr. de Franco made a presentation outlining three basic ideas to spur accelerated growth and development in Nicaragua. The proposed ideas involved (i) creating a risk capital fund to increase the flow of capital to the competitive small and medium enterprise sector, (ii) supporting the Service Provision Center Network outlined in the National Development Plan as a way to improve the human capital formation in the country and (iii) establishing a South-Atlantic road corridor to promote agribusiness and tourism and to link the Atlantic region.

Private sector representatives attending the meeting expressed their content with the ideas laid out by Dr. de Franco. They particularly liked the idea of setting up a risk capital fund and expressed confidence that such an idea would have significant positive impact on promoting new competitive enterprises in Nicaragua. Mr. Argüello argued that the main Nicaraguan families are too busy with their own success and are not interested in changing the country and Mr. McGregor talked about the need to focus on energy projects using the vast water resources of the country. President Bolaños agreed to continue the consultation process during the development of the MCA Compact.

D3.2.3 Third Quarter Private Sector Meetings

During the third quarter, a meeting took place with the Western Union Group and Continental Bank. In the meeting with the Western Union Group, Dr. Laureano posed the following targeted questions:

1. What is your group's main productive projects at this time?
2. How do you value the policy dialogue experience in Nicaragua?
3. Why isn't the Nicaraguan private sector investing more in the country?
4. What does the private sector need to increase investment?
5. What can be done to bring foreign banks to Nicaragua?

The responses provided by the Western Union Group representatives are synthesized in the following paragraphs. In response to the second question, the Western Union Group answered that although the MIFIC and the Nicaraguan presidency conducted the "Foro Empresarial" under the CAFTA negotiations with the intention to broaden and further future dialogue, the initiative ended up losing credibility from the main private sector actors. Second, private sector organizations involved only represent narrow politically motivated interest groups rather than representing the broad-based expectations for enhancing conditions for private sector development and for improving a more competitive environment. A prime example is AMCHAM, which used to exert significant influence, but has lost credibility over the last three years. The Western Union Group did mention that the GON has honorable intentions and they expressed their belief that President Bolaños is doing the best he can to promote economic development. However there is an "image" problem and the GON is not successfully promoting all the accomplishments achieved to date.

According to the Western Union Group, the Nicaraguan private sector is not actively investing in the country because: (a) The existing infrastructure does not guarantee sound investment in the country at this time, (b) there is too little development, (c) the GON's inconsistent approach in providing too many incentives to specific sectors and the evident abandonment of the agricultural sector in a primarily agricultural economy, and (d) problems associated with experimenting new technologies and new options in the agro sector.

In order to increase private sector investment the Western Union Group began by suggesting less intervention from the GON. They then turned to the need for decreased regulations and norms, especially in the agricultural sector. Finally, the group called for GON commitment to reinstall faith and security that the rules of the game are resolute.

The Western Union Group indicated that in order to attract foreign banks, such as the “Banco del Ismo,” Nicaragua has to facilitate the opening of a Superintendence office in Nicaragua so as to eventually open a bank. Also, Nicaraguan financial groups must regionalize themselves in Nicaragua, not only abroad. Bringing foreign banks to Nicaragua will lower the cost of operation (money transfer, payment systems, insurance) more than the actual rate of interest on loans. Foreign banks are also crucial as reference or benchmarking for both domestic and foreign investment because they help lowering the perceived country risk levels

The Western Union Group was very receptive to the need for establishing a “dry port” or a “container handling facility” under a special fiscal regime in Nicaragua. They indicated that such an endeavor would be feasible if a “pool” of local and foreign investors is formed to establish such a facility. This could result in a substantial reduction in transportation cost for export activities. Working on the transportation side, together with a “customs agreement” with Honduras at Puerto Cortéz, the same way that El Salvador has done it, would have a significant positive cost effect and boost the overall country's competitiveness position. This represents a much more realistic and practical approach, one that can yield further results than continuing to think about a dry or wet canal.

During the meeting with Pedro Gonzalez, the country representative for Continental Bank, the following constraints for foreign banks in Nicaragua were identified:

- High “country risk” and the high degree of political instability associated with Nicaragua causes banks to charge a higher interest rate on loans than what they charge in other countries in the region, regardless of the actual project profitability profile.
- Foreign banks especially from Panama, El Salvador, and the United States are beginning to show interest in Nicaragua, not because Nicaragua represents an attractive market, but because of connections to specific groups and families.
- Most of the foreign banks in Nicaragua operate through licensed “Country Representational Offices.” The Superintendence of Banks grants legal status to these offices that allow these banks to provide banking services to corporate clients, but they cannot offer savings services nor lend for consumer goods.
- Banks can lend for short or medium term (one to three years) with the best obtaining loans from seven to 10 years.

- Limited portfolio due to the fact that most foreign banks thought there were not enough productive projects to finance in Nicaragua. As each local office fills its quota and the projects show good repayment schedule, these credit quotas can be expected to grow.
- Property issues in Nicaragua are terrifying for foreign banks.
- Local asset valuation companies tend to inflate the value of the assets.
- Accessing to a license from the Bank Superintendence (SIB) for a representational office is relatively easy. To try to operate as a full-scale bank in Nicaragua is much more complicated.
- Foreign banks operating in Nicaragua would be willing to expand their facilities and lower cost services to medium enterprise if they have access to loan guarantee schemes such as DCA. These mechanisms are needed to compensate for the higher perceived risks of these operations.

There are several foreign banks operating in Nicaragua through representational offices or other more informal mechanisms. Many banks manage loan portfolios ranging from \$15 million to \$25 million. Some of the foreign banks with operations in Nicaragua include: Tower Bank of Panama, Continental Bank of Panama, Credit Suisse, Atlantic Security Bank, Banco Capital, Cuscatlán Bank of El Salvador, Banco Agrícola of El Salvador, among others.

D3.2.4 Fourth Quarter Private Sector Meetings

During the last quarter of the Nicaragua GBTI Task Order two important separate meetings were held with key private sector representatives—Mr. Alfredo Cuadra, President of the Nicaraguan Businessmen Council (COSEP), and Mr. Jorge Salazar, CEO for Aceitera Real, a subsidiary of one of the most important private sector group in Nicaragua.

When asked what the most important problems were affecting an accelerated export driven growth process, Mr. Cuadra and Mr. Salazar, pointed out the following points:

- The high level of political influence on the judicial system in Nicaragua, undermine investment and business development in the country, this is more evident when an investor also has political aspirations.
- Business people have to spend significant portion of their time to ensure their own political connections are in good standing.
- The second big problem limiting business development and investment in Nicaragua is the high cost of electricity services.
- Hence, the GON should elaborate a new law that provides special incentives for those who want to invest in alternative energy projects (i.e. Hydroelectric, wind, geothermic, etc.
- M. Cuadra also indicated that inflexibility in the labor market drive labor costs up, though this is compensate by the low wage paid.

- One key point stressed by Mr. Cuadra is to take the public registry away from the Supreme Court.
- Mr. Salazar, on the other hand, spoke about the group intentions to expand operations in Nicaragua in the area of Palm Oil and Soybean Oil production and exporting.
- Mr. Salazar, believe that GON should focus on: (a) establish better quality and safety control systems at the border to avoid smuggling and unfair competition; (b) establish quality and certification laboratory facilities and procedures for both imported and nationally produce products; and (c) enforce sanitary rules of the country.

Mr. Salazar believes that as long as their group is not a threat to particular interest groups they will not be target of politically motivated court ruling. Although their financial group understands the existing limitations, they still believe there are significant business opportunities in Nicaragua and they are proceeding with important investment in the food sector.

D3.2.5 Meetings with USAID

Result 3 includes also includes, as a standard, the need to hold monthly briefings with the Trade and Agribusiness Office (TAO) and the Mission's economic growth SO team on critical issues that might affect the policy, trade, and investment environment.

Throughout the life of project many informal and some formal meeting have taken place with the participation of one or more USAID representatives and Dr. Laureano. He has held at least four briefings with USAID during the current reporting period. These meetings have been attended by the GON, USAID Front Office and several USAID Technical Officers including: Steve Olive, TAO Director, Lilliam Baez, CTO for the GBTI Task Order, and Kermit Mho from USAID/LAC Trade Office in Washington, among other officers.

The main topics addressed at these meetings include:

1. Ways in which USAID can assist the GON in its effort to better coordinate and implement policy and program actions emanating from the Cooperation Table on Competitiveness;
2. Overview of possible business opportunities options in the agricultural field available to Nicaragua at this point;
3. Key actions on the Judicial Sector Reform needed to promote growth and job creation in Nicaragua.

D3.3 Assessment of barriers/constraints to trade and investment

One of the main barriers to trade comes from the lack of a national production-export development policy aimed at improving business productive capability and increasing exports in the country. Representatives from institutions participating in the barriers to trade assessment identified a succession of deficiencies and problems affecting both, the national business and

investment environment, as well as issues at the firm level, and the capability to participate and compete in the international markets.

It is essential for the country to bring the public and private sectors together to consolidate social support for the NDP-O and ensure its successful implementation. The country needs to increase the number of firms engaged in the export of good and services activity. There is a need for creating mechanisms that facilitate incorporation of value added products and help to diversify production base and conquer new markets for Nicaraguan products.

One important and difficult task that needs to be addressed is the need to influence local businesses, especially SMEs, in a way that motivates them to:

- Learn about, and seek new trade opportunities abroad
- Develop tools in accordance to market requirements
- Cover their needs once their products are introduced to foreign markets

The GBTI Task Order's recommendations under this standard focused on the need to have a national policy toward exports, value added production, and enterprise development. These recommendations are a crucial ingredient for moving forward and, to some extent, have been incorporated within the NDP-O just prepared by the GON. More time is needed to evaluate adoption and implementation of these recommendations.

E. Result 4: GON Ministries and Donor Programs Coordinated

This section highlights the key recommendations proposed in the deliverables generated under result 4 and specified in *Performance Requirement 4: Review donor programs and their impact on the economy*. The GON Ministries and Donor Programs Coordinated performance requirement mandated that, at a minimum, the GBTI Task Order would:

- Facilitate the coordination of GON and donor programs
- Hold periodic meetings with and provide policy inputs to USAID

The Nicaragua GBTI presence at the presidency facilitated a smooth relationship between USAID mission management and technical officers, and President Bolaños and Mario de Franco, Chief of the Secretariat for coordination and strategy. This is an important result and one that can be built upon to continue to consolidate a relationship of trust between the GON and USAID.

E4.1 Facilitate the Coordination of GON and donor programs

During the life of project, Dr. Laureano participated in several meetings with IICA, USAID, GON representatives, and other donors. The main activity under this particular performance requirement was the provision of expert technical assistance to USAID and the SECEP in the elaboration of a "Concept Paper" for a Project Management Unit (PMU) Oportunidad, which could serve as the basis for a bilateral dialogue between USAID and the GON.

A concept paper, titled Aprodén, was developed in the early stages of implementation and later revised. The original concept paper called for the creation of a co-financed unit within the

SECEP to manage the competitiveness initiatives proposed by the GON. The Aprodén concept paper was later elaborated to provide specifics regarding the structure, roles and responsibilities assigned to the unit. The development of the Project Management Unit concept paper required an integrated effort on behalf of all interested parties. Consequently, the concept paper was disseminated through multiple channels to various agencies and was in effect subject to multiple iterations and refinements.

During the penultimate quarter of the GBTI Task Order, the GON assumed the lead role in fine-tuning the concept paper and renamed the proposed initiative Oportunidad. The GBTI Task Order assisted during the initial phases of the discussions of functions and the coordination mechanisms under the program mandate. Finally, the GBTI Task Order provided assistance by translating the revised version of the concept paper but shortly after the GBTI Task Order decided to disengage from any further work dealing with the actual design and/or board selection process for the unit.

Oportunidad focuses on furthering two intertwined objectives: (i) Promoting a sound policy and regulatory environment conducive to business development and investment in Nicaragua; and (ii) Supporting the creation of a competitive, market-driven enterprise sector capable of competing in the regional and international markets and capable of generating employment in the country. One unintended outcome that resulted from the policy discussion among the various GON ministries and other interested entities was a change in the traditional mindset of the GON. The proposal itself provoked the acceleration of a series of reform activities including the observed changes within the CPC. The Oportunidad proposal has also helped to highlight the lack of, and the need for, coordination among the myriad enterprise development efforts that already exists in the country.

PMU Oportunidad
<p>GBTI assistance was key in supporting USAID and the GON in the elaboration of a "Concept Paper" for a proposed PMU, which could be financed by USAID and other donors. The PMU would focus on:</p> <ul style="list-style-type: none"> ➤ Promoting efficiency and effectiveness of GON entities in fostering a sound policy environment for the promotion of trade, business development and investment in Nicaragua; and ➤ Supporting the development of a strong and competitive enterprise sector in Nicaragua.

E4.2 Hold periodic meetings with and provide policy inputs to USAID

While no formal monthly meetings were organized at USAID, the GBTI chief of party hosted several technical meetings with USAID officials during the life time of the Task Orders.

E4.2.1 Nicaragua GBTI Meetings with USAID Technical Team

Key information was provided to USAID on a timely basis regarding expected changes in cabinet members, country performance under the IMF agreement, and key GON decisions such as the establishment of a vice-ministry of property. Key representative meetings:

Thursday, November 13, 2003. Dr. Laureano organized a meeting between Dr. Mario de Franco and Dr. Horacio Rose from SECEP; Dr. Jim Vermillion, USAID Mission Director; Steve Olive, Chief of Trade and Agribusiness Office; and Kermit Moh of USAID/LAC. The purpose of the

meeting was to start conversations on how to stimulate the work under the Competitiveness and Production Table. Two elements were considered:

- To have a Technical Secretariat for the Competitiveness and Production Table
- Set up a Project Management Unit within the GON

The PMU would have a Board of Directors preferable half public and half private sector. The Board was considered to be an important element of the PMU to oversee program implementation and address implementation obstacles. The Board was also important as a policy review mechanism to take on policy barriers that limit business development and investment in Nicaragua.

Kermit Moh mentioned the experience of Honduras in expanding free trade zone operations during the 1980s where USAID through FIDE, a private sector investment development foundation, provided DCA type of assistance to private investors resulting in accelerated investment and job creation. Mr. Moh expressed the idea that Nicaragua can benefit from this experience in its quest to create jobs and economic opportunities for its citizens.

Steve Olive emphasized the need for accelerating the process to put in operation the proposed implementing mechanism as soon as possible. Mr. Olive expressed to everyone the need to incorporate MIFIC, MARENA, MAGFOR and INTUR as beneficiaries under the new implementing mechanism.

The GON officials agreed to study the best way that the PMU can be set up and put into operation. USAID officials expressed their concerns that going to the legislators could imply a long and tedious process and favor the possibility that the Unit could be set up through a Presidential Decree.

As a result, Dr. Laureano was tasked with writing a basic two- to three-page concept paper as an initial document to start a more organized dialogue around the idea of setting up a PMU within the GON. The basic concept should clarify from the outset the need for transparent staff selection mechanisms. The basic concept was informally submitted to USAID a week later.

Friday, November, 14, 2003. In further evaluating the type of assistance that the proposed PMU should be involved with, Dr. Laureano met Santiago Marcias Herrera who manages a similar PMU in Mexico named “COMPITE” aimed at providing assistance to Mexican SMEs in a wide range of competitive functions at the firm level. Mr. Marcias indicated that most successful experiences promoting vibrant and competitive enterprises can be found in:

- Ireland—solid enterprise sector, big enterprises
- Wales—small and medium service-oriented enterprises
- Italy—small and medium enterprises with a good distribution system
- Chile—strong small land medium food and natural resource-based export firms.
- India—strong Small and medium enterprises in software

According to Mr. Marcias, while Business Support Programs differ greatly between among these countries, there is one factor in common. They all created powerful “implementing tools” to take

the services down to the enterprise level. Hence, one needs to focus on creating appropriate implementing tools that involve public and private sector, that are austere and transparent. Another element is that one needs leadership as part of the program. Inputs from this meeting were incorporated in the broader “Concept Paper” that was later prepared and submitted to USAID.

Week of November 17th, 2003. A meeting was scheduled with USAID Technical Office to discuss a revised delivery schedule for the Task Order. Dr. Laureano and Joel Weber attended on behalf of Chemonics. USAID was represented by Mr. Steve Olive, Chief, Trade and Agribusiness Office, and Ms. Lilliam Baez, CTO.

December 12, 2003. Dr. Laureano organized a meeting between Horacio Rose, technical manager of SECEP and Steve Olive, Chief of USAID/TAO, to continue conversation about the potential PMU to be established at the GON. The main point discussed was the Board of Directors. During the meeting it was agreed that the participating private sector representative would not derive a salary from the Unit. It was fine for the Unit to cover per diem expenses required to cover the participation of Board members who live outside Managua, but their time would be counted as counterpart contribution. At the meeting Dr. Rose expressed SECEP’s intentions to invite high level private sector representatives to participate in the Board. The idea was to invite people who can provide strategic direction to the country while remaining outside the range of possible beneficiaries of the program activities. USAID expressed that there should be a disclosure clause stating that the Board members would refuse themselves from any decisions in which there would be a conflict of interest.

February 19, 2004. Dr. Laureano provided a briefing to Steve Olive, USAID/TAO Chief, on lessons learned from the World Bank regional workshop on CAFTA in El Salvador February 17-19, 2004. Dr. Laureano explained lessons learned from NAFTA and how these lessons are applicable to the CAFTA countries. Ten years after NAFTA implementation the main findings can be summarized as follows:

1. Those with higher level of education and skills benefited more than those with low level of education;
2. Large enterprises benefited more than small and medium enterprises—this outcome, however, is directly related to Mexico’s financial crisis in 1994-95 that severely limited the flow of credit resources to small and medium firms;
3. Richer and better endowed regions triple their per capital income, while poorer regions stayed the same — worsening income distribution in the country.

In order for the countries in Central America to avoid undesirable outcomes of NAFTA and to take full advantage of opportunities that CAFTA has to offer, Dr. Laureano explained that the region needs to deepen its regional integration process and should embrace a “Complementary Agenda,” which:

At the regional level focuses on:

- Accelerating the establishment of a customs union

- Facilitating the establishment of “regional tariff” to finance regional infrastructure
- Harmonizing regulation on competition; developing a regional financial market
- Enhancing and expanding R&D in the region (both public and private initiatives)
- Concentrating on regional infrastructure efficiency and quality

At the national level focuses on:

- Education and training—need to overcome the significant gap that the region has as compared to other countries with similar level of development
- Innovation—the countries and the firms have to spend more on R&D and technology transfer to be competitive in a knowledge-based economy
- Infrastructure—key infrastructure to support a trade-led development process is needed at the national level
- Financial markets—needs to create a “corporate government,” with sound information and regulation systems, credit to SMEs
- Institutions—property rights and contract enforcement are key (need to modernize legal framework and the judicial system)

Also there is a need for providing support to the most vulnerable groups during the transition to free trade through:

- Targeted, conditioned support programs to small producers in less competitive sectors who are likely to be affected by CAFTA;
- Conditioned transfers to poor families living in less competitive regions (i.e., the “Red de Protección Social” in Nicaragua).

Finally, there is a need to continue with the consolidation of macroeconomic stability within the region focusing on the fiscal fragility still prevailing in most countries of the region.

March 4, 2004. A briefing was organized by Dr. Laureano to the USAID SO2 Technical Team to discuss current economic issues. Attending the briefing from USAID were Steve Olive, Lilliam Baez and Vanessa Morales. Dr. Laureano provided a short summary explaining the current internal discussion within the GON regarding possible Cabinet member changes as well as key economic and political issues governing the current debate.

Information Sharing:

1. While some of the changes are more defined than others, nothing is final until the GON makes the official announcement. The most common rumors include moving Minister Montealegre from the MHCP to the post of Secretary to the Presidency (Leandro Marin). This change could cause a move in Foreign Relations.
2. There have been significant advances in the process to implement the National Development Plan, especially when it comes to public investments, specifically in rural

areas. The president as been going to the territories with a detailed list of programs and projects to be supported by the GON at the local level.

3. Social ministries such as Health, Education and Family ministries have completed their NDP implementation matrices for the 2004-06 period. However, there has been problem with the productive sector, especially MAGFOR. Manuel Vanegas is in charge of the providing follow-up to the productive sector from SECEP.
4. The GON is concerned that the country has committed itself to too many legislative actions, forcing the GON to be extremely dependent on the National Assembly. There will be a discussion to determine the most important laws that are required at this moment to help moving the country forward, so the GON can focus its efforts on those actions first.
5. Dr. Laureano informed the team that a PowerPoint presentation has been scheduled for President Bolaños on the proposal to locate a PMU Oportunidad (created through a Ministerial Decree) to facilitate trade, investment, business development and employment in Nicaragua. Everyone agreed that it would be important that Dr. Jim Vermillion attend this presentation.

April 1, 2004. A detailed technical negotiation meeting was organized between USAID and the GON on the PMU Oportunidad. The GON was represented by Dr. Horacio Rose, SECEP Technical Coordinator; with Steve Olive and Lilliam Baez from the Trade and Agribusiness Office representing USAID. Additionally Dr. Laureano from Nicaragua GBTI attended the meeting whose purpose was to arrive at common ground on key technical elements surrounding the establishment of the PMU Oportunidad at the GON. The GON objective was to convey the need to start operations as soon as possible. Key outcomes of the meeting included:

A. Technical Issues

1. SECEP proposed that private firms benefiting from the program should be competitive in their own rights without any subsidy scheme. However, given the poor asset distribution in the country and the steep and costly learning curve to enter export markets, most of the support provided by the PMU should be directed to the SME sector. The key objective is to support the emergence of a new enterprise class in Nicaragua.
2. It was agreed that Oportunidad would provide support mainly to the SME sector with high export potential. However, the program would not exclude providing strategic support to larger firms when this support can result in positive impacts for the development of the SME sector.
3. USAID wanted to limit assistance to in-kind support rather than acquisition of capital goods. SECEP on the other hand, would like to keep some open avenue to allow the program to provide some strategic direct transfers that can result in demonstrative impacts or that can leverage important investments in a particular area. SECEP proposed to USAID the possibility of providing a maximum of 10 percent of the budget for this purpose.
4. In terms of the particular firm's support schemes that would be developed, SECEP suggested that it was necessary to come to agreement on the specific products that will be

offered through the Unit. Likewise, it was necessary to specify the qualifying criteria so everyone understands how to apply. Additionally, SECEP was interested in finding ways to guarantee that the assistant reach the intended beneficiaries and that beneficiaries have a saying in selecting a particular service provider. USAID took note of these comments and promised to go back to the GON on these issues.

5. Both USAID and the GON agreed that firms receiving support from the Unit should provide a matching contribution.
6. USAID suggested that the Board of Directors include from the GON side: SECEP, MHCP, MIFIC, MAGFOR and MARENA. Additionally, six private sector representatives with leadership and successful careers would be invited to participate.
7. USAID asked for the Executive Director and the key personnel, as well as the private sector members of the Board, to be selected by mutual consent.

B. Operational Issues:

1. USAID agreed that there was a sense of urgency in starting operations as soon as possible. Accordingly, USAID had identified some \$300,000 that can be used to immediately hire the required minimum personnel, buy needed equipments and secure a rented space so the Unit can start operation right away. USAID would confirm in writing the availability of these resources as well as the next steps necessary to disburse such resources.
2. SECEP agreed with the outline course of action and is prepared to immediately hire: (i) an Executive Director, (ii) a Procurement/Personnel Specialist, and (iii) an Accountant.
3. Both SECEP and USAID agreed that it is necessary to immediately start the process of identifying private sector potential Board candidates.
4. USAID also agreed to hire, in mutual agreement with the GON, an external local accounting firm that can support the Unit in establishing appropriate accounting and financial systems that the Unit would provide oversight to financial expenditures in order to guarantee all the norms of transparency, reporting, and financial analysis required to meet USAID regulations.
5. USAID stated that they are also preparing the internal documentation to hire an international consulting firm that can provide technical assistance to Oportunidad in areas such as: (1) institutional strengthening, and (2) detail design of its technical assistance program. The firm was thought to be needed for a minimum time period of nine months.
6. USAID assured the GON that the internal process has been started to secure the resources that would be channeled through Oportunidad. USAID expected that this process would be completed at the end of April, 2004.

July 14th, 2004. Dr. Laureano made a PowerPoint presentation on the Ireland Economic Transformation experience and the lessons learned for Nicaragua, attended by the entire USAID SO2 Technical Team and Dr. Jim Vermillion, USAID Mission Director.

E4.2.2 Nicaragua GBTI High Level Meetings with President Bolaños and Mission Director Dr. Jim Vermillion

At least two high level meetings were organized between USAID Director, Dr. Jim Vermillion and President Bolaños. These meetings addressed the establishment of the PMU Oportunidad as well as the need for Nicaragua to present a high quality “Compact” proposal for the MCC. Additionally, several meetings were scheduled between Mission Director Dr. Jim Vermillion and Dr. Mario de Franco, SECEP Secretary. Finally, during the course of the GBTI Task Order, several PowerPoint presentations were made to President Bolaños, SECEP and USAID.

April 14, 2004. Dr. Laureano organized a meeting between President Bolaños, Dr. Mario de Franco, and Dr. Jim Vermillion, USAID Director. During the meeting Dr. Vermillion expressed the intention of USAID to finance a PMU set up by presidential decree, which can be attached to one of the key ministries. The PMU will have a public-private Board presided over by a private sector representative. President Bolaños asked whether or not the Unit could provide direct support to enterprises. The President stated that the Board can approve the transfer as a loan, contingent upon productivity, export and efficiency targets; if the entrepreneur met the target, then the loan would automatically change to a grant.

Dr. Vermillion stated that why it was difficult for USAID to provide direct support to enterprises, USAID will work together with the GON to ensure that the President concerns are taken into account during the Unit’s program implementation. Key specific agreements reached at this particular meeting include:

USAID: USAID agreed to send the draft of the Implementing Letter (IL) which will serve as the basis for the \$250,000 grant, before April 16, 2004. The grant to set up Oportunidad would be provided through SECEP and will be used to finance required activities needed to set up the Unit such as: hiring of an Executive Director, a Procurement/Personnel Specialist, a Financial Analyst, as well as the necessary equipment and office rental.

SECEP: SECEP agreed to:

- a. Write position description for the needed personnel;
- b. Initiate the process of identify potential Board members, send a list of proposed names to USAID and mutually agree on the actual candidates that will be invited to be part of the Board;
- c. Write Draft Presidential Decree creating the Unit;
- d. Sent a revised Concept Paper that would accompany the Implementation Letter as an annex, including the technical agreement reached in the April 1, 2004 meeting between USAID and the SECEP.

A second topic discussed at the meeting was the need for Nicaragua to elaborate a solid proposal “Compact” for participating the in the MCA program. Dr. Vermillion stated that it was important to answer to the “why” and the “what,” and specify results expected from implementing the

proposed Compact. The GON should focus on a Compact characterized by: (1) visible impacts on economic growth, (2) short-term (2-3 years), and (3) with activities meshing together under a single concept.

June, 2004. At least three working meetings were scheduled with Mission Director Jim Vermillion and SECEP Secretary Dr. Mario de Franco to prepare the agenda for the June 22, 2004, Millennium Challenge Corporation visit to Nicaragua. After several revisions an agenda was finalized including:

- Meetings with the private sector groups
- Meetings with the press
- Meeting with Mario de Franco, named point of Contact by President Bolaños
- Meeting with civil society
- Meeting with bilateral donors
- Meeting with National Assembly and Supreme Court of Justice
- Meeting with political parties

E4.2.3 Exploring Possible Business Opportunities for Nicaragua:

The USAID/Nicaragua Front Office was briefed 12/04/03 on possible business opportunities available to Nicaragua in order to take advantage of Chemonics' high level technical visitors to Nicaragua. The briefing identified several options that the country can pursue to open up new economic opportunities for its rural economy.

Key potential opportunities emphasized at the meeting included:

- Working on key sectors such as:
 - Aquaculture
 - Meat sector (beef)
 - Coco linked to high value timber and fair trade
- Working on other community-based sustainable crops and linking them to the furniture industry—wood products
- Cashews—especially the Australian style
- Peanuts—including certification systems
- Organic agribusiness—focusing on the whole production chain including organic inputs, certification processes, product and farm traceability, tunnels, drip irrigation
- High value vegetable products for export

One key aspect stressed at the meeting was the need to establish the king of supply chain support system that would allow Nicaragua to move into these high value business opportunities at a proper scale. It should be noticed that all of the crops and/or sectors mentioned above have free access to the U.S. market either though negotiated quotas or by changing the unilateral CBI benefits into permanent market access benefits under CAFTA.

E4.2.4 Judicial Sector Reform

A meeting was held the last week of December 2003, with USAID Front Office and the Office of Democratic Initiatives to discuss the current GON proposal to Judicial Sector Reform and the need to introduce key legislative actions in the near term in this area. Dr. Laureano accompanied Dr. Rose from the SECEP in exploring possible assistance that USAID could provide the GON to ensure a serious effort in advancing these important reforms, given their impact on economic growth, investment and job creation.

F. Concluding Remarks

The previous sections serve to reiterate the key areas that the task order focused on and also provide the substance behind the multitude of deliverables produced and the vast applicability of the recommendations made.

Although much advancement has occurred during the year long implementation period, much remains to be done in order to secure the commitment of the multiple actors in seeing the proposed initiatives materialize. As such, we conclude this report by recommending the following actions to ensure the continuity of the advancements made to date.

Nicaragua must continue working toward adopting a more pro-enterprise, coordinated stance to achieve national level impacts that open up new economic opportunities, create jobs and significantly affect people's living conditions. It should ensure that initiatives are dynamic and progressive. There is a need to initiate multimedia awareness campaigns to garner public support of the GON initiatives. Continued private sector participation is critical to the success of Nicaragua's competitiveness initiatives but there is a need to identify interest groups and involve them in the promotion process as well as a need to identify best practices and lessons learned applicable to Nicaragua.

One possible approach to contribute to achieving these advancements is to create practice networks where interested individuals can share knowledge and experiences according to interest areas. We recommend that Nicaragua continue exploring lessons learned and best practices in multiple sectors and in different countries and different conditions and for these lessons learned to be disseminated with broad stakeholder base to obtain feedback, reactions and ideas.

We conclude this report with one final recommendation regarding the proposed institutional framework under the PMU Oportunidad and how to incorporate government inputs assuming a 100 percent private board. We begin by addressing the proposed roles and responsibilities under a new institutional framework for the establishment of a Nicaraguan Enterprise Development Agency.

First, we recommend that the agency be responsible for providing specialized technical advice to the Production and Competitiveness Cabinet in issues related to the establishment of a sound policy framework. This framework should be conducive to trade, business development and investment in Nicaragua. We suggest lending special focus to:

- The elaboration of investment and enterprise development strategies in Nicaragua, and the work plans and policy reforms needed for their implementation;

- Furthering the development of high growth potential productive sectors;
- Measures to improve economic competitiveness in the country;
- Positioning of Nicaragua as a “prime location” for labor-intensive, medium-value manufacturing investment;
- Review excess government procedures and bureaucratic requirements, as they relate to investment promotion in Nicaragua and align them with the country’s competitiveness objectives;
- Review and elaborate legislation related to investment and the productive sectors development and the Investment Agencies (Pro-Nicaragua and Oportunidad).

Second, we strongly recommend continual and systematic monitoring and evaluations with respect to the performance of the investment agencies, Pro-Nicaragua and Oportunidad, and the mechanisms under which these agencies base their activities. We propose to establish the requirement for an approval process for the financial support that the Agency will provide to the investment agencies based on clearly defined results and work plans.

Third, we urge continued provision of advice and financial assistance to the investment agencies and to any other government agency when necessary. This ongoing institutional strengthening support is necessary for agencies to implement the investment and business development strategies successfully.

Fourth, it is advisable to carry out research in the trade and investment fields as indicated by the Board of Directors and the Production and Competitiveness Cabinet.

Next, we call attention to the Board of Directors’ function within the Nicaraguan Enterprise Development Agency. It is our opinion that the Board should be comprised of key representatives of the private sector with the primary responsibility for the supervision and administration of this agency. We begin by proposing a composition for the Board as follows:

- The Chairman of the Board, who will be appointed by the Production and Competitiveness Cabinet, upon recommendation of appropriate government authority
- The Chief Executive Officer
- The Chief Executive Officer of each of the two investment agencies
- Six members from the private sector of expertise and competence appointed by the Production and Competitiveness Cabinet, upon recommendation of appropriate government authority

However, it is necessary to maintain flexibility regarding structural arrangements so as to facilitate change if and when it is necessary

Second, it is necessary to determine the maximum term of eligibility for the Board members. As such, we recommend that membership terms for Board member shall be for four years with a maximum of two four-year terms. It is important to note that the Board members, except for

those in executive positions, will receive no remuneration for their services. The agency will cover per diem expenses for those Board members that live outside Managua during business related travel. Also, prior to exercising his/her duties, any Board member, having any direct or indirect financial personal interest or any interest to his/her spouse, children and relatives to the second degree in any industrial, commercial or service enterprise, must declare the nature of such interest to the Board and shall comply with Board directions in that regard.

Third, the Board will exert the following power and assume the following functions:

- Prepare the Agency annual work plan in coordination with appropriate government authority
- Approve the organizational structure of the executive body of the agency, the job classification table and the job description therein, and supervise its work.
- Approve the annual budget of the agency and submit such to appropriate government authority
- Approve the annual report of the agency's activities, balance sheet and year-end accounts for the previous fiscal year and submit to appropriate government authority
- Propose necessary draft legislation and amendments related to the agency or the investment activities in Nicaragua and submitted to appropriate government authority
- Issue the instructions necessary to govern the agency's activities.

Fourth, the Board should elect a vice chairman from the active members. Again we suggest a four-year renewable term for the vice chairman with a maximum of 12 years in that position. However, the chairman and any other member of the Board may be changed by unanimous decision. The replacement candidate shall be appointed in the same manner and for the period remaining of the predecessor's term.

Fifth, the Board shall be required to meet at least once a month upon an invitation by the Chairman. The quorum of the Board meetings shall be met upon the attendance of the majority of its members and Board resolutions shall be officially recognized when they are issued by a majority vote of the attending members. If and when votes are tied, the vote of the Chairman shall be the determinant.

Sixth, the Chairman will retain the following power and will assume the following functions:

- Represent the agency before third parties
- Sign contracts as authorized by the Board
- Any other power entrusted by the Board

Seventh, the Board should have the option to form permanent or temporary committees, as considered necessary. These committees would provide assistance and support to the Board in performing its functions.

The appropriate government authority, upon recommendation of the Board, will appoint the Chief Executive Officer. The roles and responsibilities of the CEO shall include:

- Manage the programs and plans to achieve the objectives and functions of the agency, submit recommendations to the Board and oversee implementation.
- Sign contracts and agreements concluded by the agency with third parties, except those delegated to the Chairman by a decision of the Board.
- Prepare the annual estimated budget of the agency
- Prepare the annual report of the activities of the agency, its balance, and year-end accounts of the previous fiscal year.
- Implement the decision of the Board
- Any other function entrusted and delegated by the Board.

We now turn our attention to ensuring the incorporation of government inputs. To guarantee incorporation of government concerns and inputs during the decision making process of the agency, a “Government Advisory Team” will be named as a permanent advisory group to the Board of Directors.

The Government Advisory Team will actively participate in the Board of Directors meetings with a voice but no vote in Board decisions. The main function of the Government Advisory Team is to ensure that measures will be adopted and will have support from government ministries and agencies.

As appropriate, the Chairman of the Board will solicit input from the Government Advisory Team when policy regulation and legislation issues related to investment and business development in Nicaragua are under discussion.

We recommend that the members of the Government Advisory Team consist of the vice ministers of MIFIC, MAGFOR, MARENA, and the director of INATEC. Membership to this team is not delegable to other public officials.

Subsequently, we turn to the roles and responsibilities of the investment agencies. It is our perception that, there are two additional public agencies that are institutionally related to the Nicaraguan Agency for Enterprise Development, namely, the Investment Promotion Agency, Pro-Nicaragua, and the Local Industry Development Agency, and Oportunidad.

Each investment outfit should consult with the Nicaraguan Enterprise Development Agency in preparation of their annual work plan and budget requests to secure coordination and financial support from the agency in meeting key enterprise development and investment objectives and producing results.

The relationship between the Nicaraguan Enterprise Development Agency and the investment agencies shall be based on cooperation and coordination so as to regulate and develop an enabling investment climate in Nicaragua to facilitate procedures on domestic and foreign

investment. To achieve objectives of the Nicaraguan Enterprise Development Agency and those of investment agencies, each investment agency should abide by the following:

- Each investment agency shall submit to the agency a quarterly report including activities that the investment agency was to perform with financing from the agency, activities actually performed within the previous period, and obstacles it faced and suggestions to solve them.
- The Board shall review the periodical report to estimate the extent in which the investment agency has achieved its objectives and projects within the prescribed period of the report.

Key recommendations provided under the GBTI Task Order have yielded significant results in promoting investment in Nicaragua. Impacts and concrete results stemming from the recommendations proposed by Nicaragua GBTI helped catalyze change to allow the GON to advance toward its achieving a more competitive stance. Nonetheless, although much advancement has occurred during the year's implementation, much remains to secure the commitment of the multiple actors in seeing that initiatives materialize.

The Nicaragua GBTI project serves to highlight the value and importance of interagency coordination. Nicaragua GBTI spearheaded the momentum for change by communicating recommendations that put into motion initiatives that were consequently espoused and executed by other USAID funded partners. Chemonics is confident that the work performed under this task order has facilitated the creation of an adequate environment for increased trade and investment and has effectively helped improve economic incentives and Nicaragua's economic competitiveness.

ANNEX A RESULTS TABLE

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
1. Briefing Paper 2: CAFTA Negotiations: Preliminary Results	1. Establish required institutional reforms for successful administration of the DR/CAFTA: a. Treaty Adm. Office b. Quota Adm. Office c. Trade and Environment d. Trade and Labor e. Phyto-Sanitary/Standards office f. Intellectual-property/Generic medicine	1. MIFIC has made significant advances to establish needed inst. reforms: • Office of Adm. of Treaty created in August 2004. • In process of creating Quota Adm. Office for textile and apparel. • Will propose changes to the medicine purchase law to allow for purchasing of generic medicine. 2. Controversy Resolution Team already with important results in cases against: Mexico, Costa Rica, Dominican Republic, Honduras and El Salvador.	1. Secure higher budget levels to finance international trade offices (The private sector is asking for a new Vice-Ministry of International Trade)
	2. Focus on accrued benefits resulting from making permanent unilateral and temporal CBI benefits	3. NDP-O acknowledged need for increased support to productive clusters.	2. Country needs to focus on developing the potential for job creation for sectors such as: food processing, wood products, shoes, telecommunication, electronics. 3. Need to undertake a significant business development support to improve productivity and competitiveness
	3. Need to move decisively to establish a sound investment and business climate in Nicaragua.	4. Significant progress, though still insufficient, in creating better investment climate (i.e., Simplified Investment Window).	4. Shift to implementation of policy a. Identify administrative bottlenecks and initiate administrative simplification reforms b. Initiate a system for establishing minimum requirements (quality, certification, standards)
2. Economic analysis/ recommendations 1: Key Reforms to Administer CAFTA	4. Incorporate comments to the Revised National Development Plan (NDP) from the civil society and the donor community	5. Comments to the NDP were incorporated by March 2004. GON started preparation of the NDP-O.	5. The most important work remaining is to put into operation the NDP-O as scheduled. a. Establish date for initiation and assess commitment to agenda with specific dates b. Integrate performance monitoring system to track implementation c. Define specific roles and responsibilities and reporting system to evaluate effectiveness
	5. Elaborating a three-year operational program for the productive sector in	6. Several technical and coordination meetings were organized to define the content of the NDP-O for the productive	6. Budget discussion in the National Assembly could limit NDP-O implementation if enough resources are not assigned to priorities
3. TA support to GON in Elaboration of a "Second Generation" Poverty Strategy (NDP-O)			

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
	accordance with the NDP.	sectors.	identified in the plan. a. Continue involvement of broad based stakeholders throughout process b. Establish representative stakeholders group to lobby for adequate funding
	6. Coordinate the work with the various ministries, public agencies, private sector, and the donor community.	7. The NDP-O was finalized and presented to civil society and donors at the end of September 2004.	7. The country has to avoid going back to do another operational plan. The need is to shift to implementation. Ensure shift toward implementation with concrete dates and indicators of progress. Propose detailed action plan that identifies priority areas and groups and tie actions to agreed upon, realistic timeline. 8. Donors should focus their resources now in implementing the NDP-O rather than doing other analysis that result in new priorities. Need to secure political will and commitment at all levels to entice donor collaboration. Have donor roundtable to buy into plan. Increase number of stakeholders reduces individual risk, engenders shared ownership, and elevates the chance for sustainability.
	7. Defining specific result indicators to be measured in the 3-year operational plan. 8. Need to elaborate detailed matrices for each of the areas identified within the 3-year operational plan. Including: • National goal • Specific objectives • Expected results • Specific actions to be taken.	8. The NDP-O prioritizes 10 areas to build an enterprise competitive environment: 1. Regulatory frame 2. Land property rights 3. Technology adoption 4. Access to financial services 5. Export promotion 6. Foreign direct investment attraction 7. SME market linkages 8. Rural development 9. Environmental sustainability 10. Infrastructure	
	9. Separate and group together all the actions aimed at building a competitive environment for enterprise development in Nicaragua.	9. Additionally, the NDP-O includes the focus on productive clusters, initiating by: a. Food and natural resource-based: • Specialty coffee • Meat and dairy	9. The effort should be in actually building the competitive environment and supporting the emergence of new competitive enterprise. May need to pair efforts with technical assistance and other types of assistance as

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
		<ul style="list-style-type: none"> • Shrimp • Forestry and wood products b. Tourism c. Light manufacture 	<p>needed.</p> <p>10. Identified productive clusters are an entry point to support the emerging of a new vibrant private sector in Nicaragua. New activities that meet market conditions are expected to flourish at the territorial level, once a coordinated Business Support Program is put into operation in the country.</p> <p>11. Establish secure markets for exports, link suppliers with consumers, continually identify and analyze market demands and preferences, integrate flexibility into plan to facilitate adapting for change, and make market information available to suppliers and encourage innovation and creativity.</p>
4. Business Opportunity Strategy	10. Strengthen private sector organization		
	11. Focus on <i>maquila</i> — has great potential in textile and apparel	<p>10. The GON, MIFIC and FTZ understand the potential importance of the textile and apparel sector given the estimated increase of some \$3 billion in exports to the U.S. expected once DR-CAFTA is in full operation.</p> <p>11. A component has been included in the country's MCC proposal to foster and accelerate industrial and export development in the selected region.</p>	<p>12. To position itself as a prime location for labor-intensive, medium-value manufacture investment, Nicaragua needs:</p> <ul style="list-style-type: none"> • A country-risk rating • An aggressive FDI attraction program • An innovative “incentive package” for investors to come to Nicaragua. (with parameters and end dates)
	12. Exploit tourism options		
	13. Ensure competition in telecommunication (i.e., ensure ENTRESA allows for private sector companies to rent the new fiber optic cable being constructed).	12. Several meetings have been hosted with TELCOR and the GON to avoid a major mistake in providing connectivity through the new fiber optic cable being constructed by ENTRESA.	13. ENTRESA and MIFIC need to avoid any mistake in the setting up of connectivity rights under the new fiber optic cable system; taking this opportunity to foster development in the internationally traded service sector. Work toward investing in higher value products.
	14. Negotiate with Honduras to establish peripheral custom houses at Puerto Cortez; and	13. Conversations are underway with Honduras to establish peripheral custom houses at Puerto Cortez; and the	14. An inbound container facility —“dry port” could lower transportation costs as much as \$300 to \$700 per container. Undertake a

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
	study the possibility of a “Container Handling Terminal” to increase transportation efficiency.	container terminal idea was included under the MCC framework.	financial assessment and analysis to concretize savings.
	15. Improve Nicaragua’s international image through the establishment of a “Country Risk rating”	14. Not much has been done to increase the country rating.	
	16. Take advantage new infrastructure investment to exploit new agribusiness opportunities — i.e., Coco initiative in the Atlantic Region.		15. Given the high potential and exceptional market conditions, the Coco initiative in the Atlantic region needs to be formalized. Buyers and potential investors need to be identified immediately. Initiate promotion scheme to market initiative. Consider other high value, niche market products. Create a financial business plan for marketing purposes. Leverage resources by identifying alternatives for securing investments (DCA)
	17. Need to focus on increasing indigenous investment as a strategy to attract increased flows of FDI.	15. There has been an increased flow of domestic investment in areas such as services and building of industrial space, but the rates are still insufficient to meet country’s needs.	16. There is a need to establish new mechanisms that stimulate local investment such as guarantee funds, seed capital, GON initial investments in industrial park development, co-sharing, etc.
4. Business Opportunity Strategy	18. Strengthen private sector organization		
	19. Focus on <i>maquila</i> — have great potential in textile and apparel	16. The GON, MIFIC and FTZ understand the potential importance of the textile and apparel sector given the estimated increase of some \$3 billion in exports to the U.S. expected once DR-CAFTA is in full operation. 17. A Component has been included in the country’s MCC proposal to foster and accelerate industrial and export development in the Selected Region.	17. To position itself as a prime location for labor-intensive, medium-value manufacture investment, Nicaragua needs: <ul style="list-style-type: none"> • A country-risk rating • An aggressive FDI attraction program • An innovative “incentive package” for investors to come to Nicaragua. (with parameters and end dates)
	20. Exploit tourism options		
	21. Ensure competition in telecommunication (i.e.,	18. Several meetings have been hosted with TELCOR and the GON to avoid a major	18. ENTRESA and MIFIC need to avoid any mistake in the setting up of connectivity rights

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
	ensure ENTRESA allows for private sector companies to rent the new fiber optic cable being constructed).	mistake in providing connectivity through the new fiber optic cable being constructed by ENTRESA.	under the new fiber optic cable system; taking this opportunity to foster development in the internationally traded service sector. Work toward investing in higher value products.
	22. Negotiate with Honduras to establish peripheral custom houses at Puerto Cortez; and study the possibility of a "Container Handling Terminal" to increase transportation efficiency.	19. Conversations are under way with Honduras to establish peripheral custom houses at Puerto Cortez; and the Container Terminal idea was included under the MCC framework.	19. An inbound container facility — "dry port" could lower transportation costs as much as \$300 to \$700 per container. Undertake a financial assessment and analysis to concretize savings.
	23. Improve Nicaragua international image through the establishment of a "Country Risk rating"	20. Not much has been done to increase the country rating.	
	24. Take advantage of new infrastructure investment to exploit new agribusiness opportunities — i.e., Coco initiative in the Atlantic Region.		20. Given the high potential and exceptional market conditions, the Coco initiative in the Atlantic region need to be formalized. Buyers and potential investors need to be identified immediately. Initiate promotion scheme to market initiative. Consider other high value, niche market products. Create a financial business plan for marketing purposes. Leverage resources by identifying alternatives for securing investments (DCA)
	25. Need to focus on increasing indigenous investment as a strategy to attract increased flows of FDI.	21. There has been an increased flow of domestic investment in areas such as services and building of industrial space, but the rates are still insufficient to meet country's needs.	21. There is a need to establish new mechanisms that stimulate local investment such as guarantee funds, seed capital, GON initial investments in industrial park development, co-sharing
	26. Legal reform to encourage private sector investments in electricity sector		22. Nicaraguan private sector has suggested that a new legal framework be put in place to provide incentives for investment in hydro, wind, and geothermal energy.
5. Ireland Lessons Learned	27. Local private sector can't meet	22. The participation in the Strategic	23. Need to replace dysfunctional initiatives:

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
Power Point Presentation 6. Adopting a more Pro-enterprise stance in Nicaragua	population's job needs — the country needs to turn to FDI as a central economic driver.	Investment Workshop in Ireland and the subsequent technical assistance by an Irish Team, has created a renewed interest in a pro-enterprise stance in Nicaragua.	<ul style="list-style-type: none"> Several initiatives have been slowly developed over the last five years and are showing some limited results; While DR-CAFTA and other trade agreements will create opportunities, all countries in the region are competing for them; identify niche for Nicaragua Other regions such as China will compete for the low-cost jobs for which Nicaragua has an advantage; shift competitive focus from price of labor to the value and marketability of output Incomes and opportunities today are not significantly better than 1990 when the country decided on a democratic route; explore potential areas and investments for increasing jobs. Identify strengths and build upon them. People don't believe in their institutions since not tangible results have been achieved. Need to provide necessary incentives and security and promote changes to rebuild public confidence.
	28. There is a need for a "Partnership Agreement" that brings all the key interest groups together.		
	29. Country needs to invest scarce resources where the highest return can be obtained.	23. One immediate result is that the proposed budget to Pro-Nicaragua has been increased by 50 percent (from C\$6.5 million to C\$9.5 million).	
	30. Education and the enterprise sector should take first priority to promote accelerated growth in Nicaragua.	24. The increased budget came as a realization from the part of the Minister of Finance that FDI has to be placed in the forefront of Nicaragua's efforts to create jobs and economic opportunities.	
	31. Nicaragua needs to establish itself as the "best" investment location for certain areas — cannot compete in all. 32. The country should stop waiting for the perfect plan and, it will never come.	25. Lessons learned from Ireland were incorporated in the proposed "OPORTUNIDAD" PMU, to be created with donor support, including USAID.	
	33. Needs to take a practical and pro-active approach—shift to implementation, a "just do it", mentality.	26. Benchmarking exercise utilized by Irish National Competitiveness Council have been shared with Nicaraguan CPC, who are now opening up a new monitoring activity to benchmark Nicaraguan performance against that of its main competitors.	
	34. Need to be able to	27. There has been a better understanding of	
			24. Key recommendations provided under the GBTI Task Order and implemented through other funding mechanism have already yielded significant results in promoting investment in Nicaragua. Identify interest groups and involve them in the promotion process.
			25. Adopting a more pro-enterprise, coordinate stance in Nicaragua will be a cornerstone in achieving national level impacts that open up new economic opportunities, create jobs and significantly affect people's living conditions. Ensure that initiative is dynamic and progressive. Promote initiatives via multi media awareness campaigns.
			26. It is important to TAKE ACTION in a paced

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
	communicate strategy, action plans and results to the population!	the need to have private sector boards heading any industrial development agency in Nicaragua.	and cautious manner. Ensure that flexibility is built in to the process to facilitate changes as necessary. Monitor progress to identify successes and areas that may require changes so remedial action can be taken in a timely manner. Develop action plan and timeline as appropriate.
	35. The donor community, EU and USAID, could be very helpful in supporting an economic transformation program in Nicaragua, but the GON has to provide leadership.		27. The donor coordination mechanisms being institutionalized in Nicaragua need to focus on implementing issues related to the NDP-O. Gearing efforts and resources toward national level impact activities.
7. Nicaragua Foreign Direct Investment Strategy	36. Improve laws, policies and practices that define the legal and institutional framework and that constrain FDI inflow—take on a selective policy advocacy role.	28. To take on a selective policy advocacy role Pro-Nicaragua hire a corporate lawyer who visited some 30 foreign firms located in-country to understand their current policy issues. Advocacy issues has been focused on: <ul style="list-style-type: none"> • FTZ issues • Pension Law • Migration and custom • Tourism Bonds 	28. See comments on the section “Adopting a more pro-enterprise stance in Nicaragua” Pair FDI investment with sector led growth and national investments. 29. Continue exploring lessons learned and best practices in multiple sectors and in different countries and different conditions. Share lessons learned with broad stakeholder base to obtain feedback, reactions and ideas. 30. Review available literature and data such as recently released in World Bank's "Doing Business in 2005". Disseminate the data gathered by the Lawyer to the firms.
	37. Pro-Nicaragua needs to shift to a more pro-active mode in promoting investments, including: <ul style="list-style-type: none"> • Increasing number of leads through cold calls and proactive campaigns to improve country's image • Participating in more international investment events • Focusing promotion to key target markets 	29. Pro-Nicaragua has shifted to a proactive mode of promotion. Since March 2004 it has conducted at least six campaigns: <ul style="list-style-type: none"> • Three in textile — Mexico, plus two fairs, • Two in tourism — Costa Rica and Spain, • Two in electronics — Mexico and California • There is still work needed to increase the number of leads through cold calls. 	31. Identify best practices and lessons learned applicable to Nicaragua. Create a practice network where interested individuals can share knowledge and experiences according to interest areas. 32. Draft concept paper and strategy, in coordination with all players involves, justifying the need for private sector boards. Organize a meeting to discuss strategy and next steps.
	38. Pro-Nicaragua needs to	30. Two people were hired in textile and	33. Continue efforts to attract investors and

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
	strengthen its promotional department	electronics to strengthen promotion.	diversify investor base. Explore potential partnerships between different but related sectors. Research opportunities for sustainable forestry and assess market demand for timber exports. Invest in research and innovation to maintain interest.
7. Nicaragua Foreign Direct Investment Strategy	39. ID the 30 food sector processors and natural resource-based foreign companies located in CA that could be potential investors for Nicaragua.	31. The agency just started to look at the food sector. a. A local specialist has been sent to Costa Rica to interview firms in the ornamentals sector.	34. Identify a variety of potential areas of excellence and niche markets. Define areas of intervention, identify preliminary actions, and secure markets (hotel industry)
	40. Tourism: a. Define the sector's development strategy, including a type of tourism most appropriate and the kind of investments to be promoted. b. Classify regions and define infrastructure priorities require to develop them. c. Conduct a country's image campaign d. Conduct observational trips to Costa Rica and Dominican Republic e. Re-focus internal resources in INTUR from salary to promotion. f. Re-focus internal resources in INTUR from salary to promotion.	32. A promotion strategy for tourism has been defined between Pro-Nicaragua and INTUR.	35. Develop modern broad-based promotion campaigns
		33. Specific target markets have been selected to focus promotional activities. (U.S., Spain, and CA countries — Honduras, El Salvador and Costa Rica)	36. Monitor and evaluate impact on a continual basis. Make adjustments as needed.
		34. Country's image campaigns using testimonials have been done in textile and apparel—Apparel Magazine is running an article on Nicaragua.	37. Contract a rating company to establish a credit rate for Nicaragua
		35. Observational trips to Costa Rica and the Dominican Republic were conducted.	38. Draw on development experiences that are applicable to Nicaragua
		36. An INTUR-Private Sector formed a commission to better focus promotion.	39. Monitor results and track changes in adopting this approach. Identify and document advantages and benefits for this shift.
		37. INTUR has make significant progress in re-shuffling internal resources toward promotion (only 28% down from 48% is used in salaries)	
	41. Free Trade Zones: a. Clearly define and separate the roles of the FTZ Commission (regulator) and the FTZ Corporation (manager)	38. A new FTZ law proposal clarifies the roles of the FTZ Commission and the FTZ Corporation.	40. Vet the law in multiple audiences to ensure distinction is clear and measurable

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
	of industrial parks).		
	<p>42. Telecommunication-based services:</p> <p>a. Conduct an English Capability Assessment to assess country potential in the internationally traded services.</p> <p>b. Create a database of qualified individuals to facilitate the work of new services industries to the country.</p> <p>c. Establish an intensive program to teach English as a second language in public and private schools, universities and language institutes.</p> <p>d. Review infrastructure, legal and institutional issues that limit telephone services, connectivity, and access to emerging technologies (i.e., broad bands).</p>	<p>39. An English Capability Assessment was conducted by Pro-Nicaragua as proposed.</p>	<p>41. Take results of assessment as basis for follow on initiatives. Perform a SWOT analysis.</p> <p>42. Promote tool and encourage applicants. Establish a screening process that carefully documents competencies and skill base so as to ensure high quality resources.</p>
		<p>40. Pro-Nicaragua created a new tool to create a data base of young individuals with English capability that could work in the service industry, named "NicaSearch.com".</p>	
7. Nicaragua Foreign Direct Investment Strategy		<p>41. Pro-Nicaragua obtained financing to conduct a promotion plan for contact centers (call centers, back-office operations); including: benchmarking, promotion tools and enterprise listing.</p> <p>42. Pro-Nicaragua will now move into the design and formulation of a proposal to start an ESL program in Nicaragua in support of the internationally traded service industry.</p>	<p>43. Target promotion campaigns to specific age groups. Focus training for broad-based dissemination to ensure communication is the right level for national audience. Adapt curricula to specific needs and objectives of raining groups. Ensure that there are qualified instructors available. Training of trainers</p>
		<p>43. Pro-Nicaragua has been working with TELCOR and ENTRESA to bring a firm</p>	<p>44. Define objective and purpose of call centers. Provide continual follow- up and define</p>

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
No. 1: Enabling Environment for Increased Trade and Investment Enhanced			
		named AMNET to Nicaragua that would allow the country to have the redundancy necessary to bring higher-end call centers to the country.	discrete steps that need to be taken to accomplish objective.

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
Result No.2: Key Economic Policy Reformed and Action Taken to Improve Economic Incentives & Business Environment			
8. Economic analysis/ Recommendations 2: ST economic reforms	43. Continue with administrative simplification by reducing enterprise registration procedures and modifying the commercial code.	44. The administrative simplification law is item number one in the NDP-O actions to be taken.	45. Review current system of policies and procedures and determine areas that are complex, inefficient and hard to understand. Reduce the number of phases in the registration process and simplify procedures. Generate a draft law and vet through focus group representatives of potential users. Communicate and publicize simplification revisions.
	44. Establish accustom deregulation task force	45. A customs simplification task force was established between Customs, FTZ, and MIFIC. One issue is to avoid a "guard" in every cargo, maybe through a seal procedure.	46. Promote interagency coordination and initiate forum to discuss inefficiencies and potential solutions. 47. Provide assistance via direct technical assistance, centers, and/or training sessions for interested applicants.
	45. Create a business visa category 46. Simplify the procedure to provide residency and ship household effects for investors	46. Immigration officers, Pro-Nicaragua and MIFIC have agreed to simplify residency procedures for investors, including providing multi-year residency cards.	48. Study available options utilized in other countries and regions 49. Provide follow-up to ensure simplification process is put into place.
9. Economic Incentives Assessment/ Recommendations	47. Implement a new rural development program to provide clear incentives and a framework to promote integrated rural development.	47. The NDP-O incorporates rural development and the economic transfer policy as one of the element needed to build a competitive rural environment.	50. There is a need to establish good monitoring system for the NDP-O, which can assess program impact on result indicators. 51. Need to establish and solidify linkages for rural development. Must have a system in place for accessing available resources, knowledge and assistance
	48. Foster an aggressive medium-term property formalization program with short-term action plan, to eliminate one of the most serious impediments to growth in Nicaragua.	48. The GON has included a property rights component as part of Nicaragua's Compact proposal to the MCC.	52. Property programs need to be strengthened and systematized. Lack of clearly defined property rights will continue to be an important limitation to improve competitiveness.
	49. Undertake a more articulated investment promotion program focused on high-potential growth sectors such as the food industry, forestry,	49. The proposal for the PMU — "Oportunidad" focuses on: establishing a competitive policy environment and supporting an articulated effort to promote local	53. Allow for individual and communal property rights. Link all rights to responsibilities (stewardship, taxes, productive minimum)

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
Result No.2: Key Economic Policy Reformed and Action Taken to Improve Economic Incentives & Business Environment			
	electronics, integrated textiles and apparel, internationally traded services, and tourism.	high potential growth industry development, linked to increased FDI flows.	
	50. Adoption of a more proactive cluster development strategy to link local productive capacity more directly to market opportunities, FDI, and value-added.	50. Enhanced effort by the GON to link cluster development to market opportunities and the development of competitive enterprises in Nicaragua.	54. There are important lessons from the Irish experience in developing local competitive industries and increasing FDI flows that can be beneficial for Nicaragua. 55. Tie dialogue to action and tangible results. Establish a deadline for generating results.
	51. Need to focus on competitiveness from the point of view of gaining and sustaining Nicaragua's competitiveness in its economic-wide cost dimension and in all other dimensions.	51. CPC has opened up a new "monitoring" department and is engaging in selecting indicators to track country's performance.	56. Local investment is not enough to develop world class clusters in Nicaragua. Clusters need to be linked to, and probably led by, world class foreign firms. Identify benchmark firms 57. To properly assess the relative competitiveness position of the country, it is necessary to carry out benchmarking analysis with respect to competitors. Ireland uses 56 indicators and benchmarks itself against 15 competitors. Identify indicators and competitors to use as baseline for measuring success.
	52. Need to seriously address structural deficits and supply side weaknesses that limit the capacity to achieve strong economic growth.	52. Dialogue has initiated about the need to focusing on enabling the economy to create and expand high value-added economic activity.	58. The PMU-Oportunidad could provide valuable assistance in fostering upward mobility of industries along the value chain.
	53. Need to promote and maintain competition across all sectors of the economy to ensure maximum efficiencies and lowest cost goods and services for the population.	53. A "competition law" has already been drafted at MIFIC. However, there are plenty of anecdotes where competition was hindered through clever intervention of the court system.	59. There is still a misconception as to believe that competition is guarantee with a new law. The only way to foster competition is having a large number of firms participating in markets.
	54. Promote the visualization and communication to the public, of existing subsidies, transfers, and other government supports to the private sector as a basis for elaborating a broader equity policy in the country.	54. The GON has included an analysis of the various subsidies and transfers already given to the various private sector groups as part of specifying a more equitable rural development policy within the NDP-O.	60. The GON should improve its communication with the population — telling them what subsidies and support are being given and to whom. 61. Using information from the analysis the GON should promote a policy dialogue on subsidies impacts and seek new alternatives.

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
Result No.2: Key Economic Policy Reformed and Action Taken to Improve Economic Incentives & Business Environment			
	55. Taking account of the need to reduce pressure on the environment and respect Nicaraguan's international obligations.	55. Environment and trade is a weak area and needs more attention and efforts.	62. Need to integrate environmental considerations from the outset of planning. 63. Healthy environmental systems may well increase Nicaragua competitiveness position both in the short and medium term (i.e. Tourism, Food and Natural Resource-based industries). 64. There is a need to concretize links between trade and environment and to find ways to assign economic value to resources so they are developed in a sustainable manner. 65. Environmental standards are closely linked to trade and quality attributions. The country needs to start coherent quality certification systems that incorporate key environmental concerns.
Economic analysis/ Recommendations 3: DR-CAFTA	56. The GON allocation of the textile and apparel TPL, as well as sugar quotas, should be guided by the principle of maximizing social impact	56. The GON is in the process to open a new Textile Quota Administration Office that takes into consideration actual and new entrant firms.	66. Nicaragua needs to think creatively and do whatever it can to differentiate itself from the rest of the region. There is a need to re-thinking the incentive package being provided to investors in light of the substantial impact that DR-CAFTA will have in the textile and apparel sector.
	57. Nicaragua needs to establish itself as a prime location for medium-value manufacturing in the region	57. Pro-Nicaragua, MIFIC and the FTZ Corporation and commission are working together on an organized strategy for textile and apparel sector.	
	58. Need to stimulate a pro-enterprise culture, which requires a major mindset change		67. Nicaragua needs to understand that a profit, investment and private sector development is good for the country. A strong communication campaign is needed. 68. However, noticeable advances have begun to indicate a mindset and attitude change in the country, as producers are becoming more aware of market opportunities.
	59. Establish a comprehensive business development assistance package based on the six determinants of competitiveness: a) Sales/marketing		69. The GON initiatives imbedded in the NDP-O are guided by positive spirit and progressive outlook. But a coherent program need to be put in place that focus on national level impacts, rather than localized small pilot programs. 70. Many institutions offer business development

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
Result No.2: Key Economic Policy Reformed and Action Taken to Improve Economic Incentives & Business Environment			
	b) Innovation c) Technology/production d) Management/ leadership e) Finance/accounting f) Human resource development		services (BDS) to SME and exporters. But these programs are weak, uncoordinated, and of little value to the enterprise sector. BDS need to be view through the competitiveness prism.
	60. Promote a concerted public-private effort to address determinants of competitiveness at the industry and firm level.		71. Identifying determinants of competitiveness provide a sound basis to evaluate present status of enterprises within an industry and action plan to help move them higher along the value chain. 72. Policy dialogue is ongoing and dynamic. Especially if the once-a-week meeting between COSEP and the GON can be sustained over time.

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
Result No.3: Barriers to Trade Identified and Strategies Formulated and Implemented, Private Sector Participation			
11 .Trade and Investment Barriers Assessment and Recommendations	<p>61. Construct a production-export development policy to improve businesses productive capacities and increase exports.</p> <p>a. Bring public and private sector together to harden social support for the NDP and ensure its successful implementation.</p> <p>b. Aim actions at increasing the number of firms that export goods and services, incorporate more value added, diversify production, and conquer markets for Nicaraguan products.</p> <p>c. Influence the businesses in: motivating them to learn about opportunities abroad; develop tools in accordance with the market and cover their needs when their products are introduced to foreign markets.</p>		<p>73. Recommendations provided within this block focus on the need to have a national policy toward exports, value added and enterprise development. These recommendations are crucial to move forward and to some extent have been incorporated within the NDP-O just prepared by the GON. More time is needed to evaluate adoption and implementation.</p>
12. Business Roundtable/ Private Sector Participation	<p>62. The CPC should have a broader Board of Directors and it should be presided over by a private sector representative.</p>	<p>58. The CPC and the World Bank have proceeded to modify CPC decree to allow for an expansion of the Board of Directors.</p>	<p>74. There is still much misunderstanding on the part of the GON agencies that deals with competitiveness and even from the World Bank itself. Competitiveness cannot be understood without benchmarking against competitors.</p>
	<p>63. The CPC could become a Business Roundtable to entertain and discuss policy reform initiatives coming from the private sector. In essence becoming a Policy Review Board.</p>	<p>59. Additionally, it has been agreed to allow a private sector representative to preside over the CPC Board, as originally recommended.</p>	<p>75. Everyone agrees it is the private sector that creates jobs and wealth. But in practice, Nicaraguan private sector is not taking a leadership role while there is not a critical mass of foreign investors who can influence policy decisions in the country.</p>
13. Proposal to establish the PMU for Business	<p>64. Create a PMU Unit within the GON to create appropriate</p>	<p>60. A final concept paper for Oportunidad was developed taking</p>	<p>76. Need to move to the conformation of Unit structure (Board, CEO, Staff)</p>

DELIVERABLES	RECOMMENDATIONS	SPECIFIC RESULTS	NEXT STEPS
Result No.3: Barriers to Trade Identified and Strategies Formulated and Implemented, Private Sector Participation			
Promotion and Development "Oportunidad"	framework for: a. Promote a sound business and investment framework b. Promote the development of competitive enterprises, investment and employment.	into account the GON and USAID comments.	77. Specify roles and responsibilities within the Unit.
14. Briefing Paper 1: Aproden concept paper	65. Improved policy environment includes: a. Provide strategic direction to the country b. Provide financial assistance to the various GON agencies in-charge of the policy decision making process c. Engage the private sector so appropriate policy ownership d. Measure policy reform implementation.	61. A consensus on the need to shift from planning and formulation to policy implementation on the part of the GON is taken place.	78. Already discussed.
15. Briefing Paper 3: Amplification of CPC	66. Promoting a competitive enterprise sector: a. Undertaking a strong BDS program b. Support the creation of new market linkages c. Provide strategic direction to industry development.	62. A consensus on the need to accelerate the creation of a competitive enterprise sector is emerging in the country.	79. Nicaragua needs to put in place a framework that allows firms within an industry to move up in the value chain, increasing the current enterprise sector competitiveness position.

Managua, 18 de octubre de 2004

Doctor
Efraín Laureano
Director Proyecto GBTI de U.S. A.I.D.

RECIBIDO
SECRETARIA DE COORDINACION Y ESTRATEGIA
NOMBRE: Eva Patricia Mejía Lara
FECHA: 22/10/04 HORA: 3:03 PM
SGCEP - Z - 2161 - 10 - 04

Estimado Doctor Laureano:


Por medio de la presente queremos agradecer el apoyo que su proyecto ha brindado a la agencia de promoción de inversiones de Nicaragua.

La asistencia brindada por el Sr. Eddy Martínez ha tenido un efecto muy positivo en el funcionamiento de ProNicaragua. El Sr. Martínez contribuyó de manera concreta al mejor funcionamiento de la agencia y a la promoción proactiva en algunos sectores claves para Nicaragua.

Las recomendaciones específicas del Sr. Martínez y sus resultados en cada sector son los siguientes:

- El Sr. Martínez recomendó la integración de una unidad de "policy advocacy" a la agencia. El resultado es que ya se ha incorporado una persona a la agencia para el desarrollo de esta unidad.
- La experiencia del Sr. Martínez en el sector de servicios tecnológicos (back office operations, call centres, etc.) nos brindó insumos importantes para presentar el sector a la Presidencia de la Republica. Ya se está promoviendo este sector de forma proactiva por parte de la agencia.
- La recomendación sobre mayor proactividad en contactos con inversionistas potenciales (llamadas en frío, campañas de mercadeo directo, etc.) se está implementando a través de la promoción de dos sectores adicionales: servicios y ensamblaje electrónico.
- Se realizó una misión de negocios a República Dominicana en la que se sostuvieron reuniones con empresarios del sector turismo y se estudió el modelo de desarrollo turístico del país.

Como se puede corroborar, la asistencia técnica del Sr. Martínez tuvo resultados tangibles y positivos en el funcionamiento de ProNicaragua. Esperamos continuar recibiendo apoyo del Proyecto GBTI para evolucionar como agencia y contribuir al desarrollo económico de Nicaragua.

Atentamente,

Juan Carlos Pereira
Director Ejecutivo

Arto.6 El presente Decreto entrará en vigencia a partir de su publicación en La Gaceta, Diario Oficial.

Dado en la ciudad de Managua, en la Sala de Sesiones de la Asamblea Nacional, a los diecinueve días del mes de agosto del año dos mil cuatro. **WILFREDO NAVARRO MOREIRA**, Presidente por la Ley Asamblea Nacional. **MIGUEL LOPEZ BALDIZON**, Primer Secretario de la Asamblea Nacional.

Por tanto: Publíquese y Ejecútese. Managua, dos de septiembre del año dos mil cuatro. **ENRIQUE BOLAÑOS GEYER**, Presidente de la República de Nicaragua.

DECRETO A.N.No.3962

EL PRESIDENTE DE LA REPUBLICA DE NICARAGUA

Hace saber al pueblo nicaragüense que:

LA ASAMBLEA NACIONAL DE LA REPUBLICA DE NICARAGUA

En uso de sus facultades

HA DICTADO

El siguiente:

DECRETO

DE APROBACION DE ADHESION A LA CONVENCION SOBRE LA PROTECCION FISICA DE LOS MATERIALES NUCLEARES

Arto.1 Apruébase la Adhesión de Nicaragua a la Convención sobre la Protección Física de los Materiales Nucleares, del 26 de octubre de 1979 y publicada en La Gaceta, Diario Oficial #63 del 30 de marzo del año 2004.

Arto.2 El presente Decreto entrará en vigencia a partir de su publicación en La Gaceta, Diario Oficial.

Dado en la ciudad de Managua, en la Sala de Sesiones de la Asamblea Nacional, a los diecinueve días del mes de agosto del año dos mil cuatro. **CARLOS NOGUERA PASTORA**, Presidente de la Asamblea Nacional. **MIGUEL LOPEZ BALDIZON**, Primer Secretario de la Asamblea Nacional.

Por tanto: Publíquese y Ejecútese. Managua, dos de septiembre del año dos mil cuatro. **ENRIQUE BOLAÑOS GEYER**, Presidente de la República de Nicaragua.

PRESIDENCIA DE LA REPUBLICA DE NICARAGUA

DECRETO No. 100-2004

El Presidente de la República de Nicaragua

En uso de las facultades que le confiere la Constitución Política

HA DICTADO

El siguiente:

DECRETO

Reforma al Decreto No. 76-2002, De Creación de las Comisiones de Competitividad y de Tratados de Libre Comercio

Arto. 1 Se reforma el artículo 6 del Decreto No. 76-2002, publicado en La Gaceta, Diario Oficial No. 154 del 16 de agosto de 2002, el que se leerá así:

"La Comisión de Tratados de Libre Comercio estará integrada por cuatro miembros del sector público y tres miembros del sector privado, la Comisión de Competitividad estará integrada por seis miembros del sector público y siete miembros del sector privado, nombrados por el Presidente de la República, quien las presidirá y en su defecto delegará al funcionario que la presida".

Arto. 2 El presente Decreto entrará en vigencia a partir de su publicación en La Gaceta, Diario Oficial.

Dado en la Ciudad de Managua, Casa Presidencial, a los veintiséis días del mes de agosto del año dos mil cuatro. **ENRIQUE BOLAÑOS GEYER**, PRESIDENTE DE LA REPUBLICA DE NICARAGUA.

DECRETO No.101-2004

El Presidente de la República de Nicaragua

CONSIDERANDO

I

Que el día 30 de marzo del año 2000, en la ciudad de Luxemburgo, fue suscrito el Acuerdo Marco entre la República de Nicaragua y el Banco Europeo de Inversiones.

II